Supreme Court, U.S.
FILED
SEP 25 1992
OFFICE OF THE CLERK

No. 92

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1992

THE GEORGE BASCH CO., INC.,

*Petitioner,*

vs.

BLUE CORAL, INC., SIMONIZ CANADA, LTD., and MICHAEL MOSHONTZ,

*Respondents.*

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

## PETITION FOR A WRIT OF CERTIORARI

FRANK J. COLUCCI*
COLUCCI & UMANS
Manhattan Tower
101 East 52nd Street
New York, New York 10022
(212) 935-5700

* *Counsel of Record for Petitioner*

September 25, 1992

## Question Presented

The District Court entered a judgment in this action which affirmed the jury's verdict awarding Basch $200,000 in Blue Coral's profits as compensatory damages for trade dress infringement pursuant to Section 35(a) of the Lanham Act and enjoined Blue Coral from continuing to use the infringing trade dress. The Court of Appeals partially reversed the District Court's denial of Blue Coral's motion for judgment n.o.v., and vacated the jury award, while affirming the District Court's grant of injunctive relief and denial of attorney's fees. The Court of Appeals vacated the jury award on the ground that despite the jury's verdict that Blue Coral intentionally imitated Basch's NEVR-DULL trade dress, Basch failed to establish that Blue Coral acted with willful intent to deceive the public. The question presented is as follows:

Whether Section 35(a) of the Lanham Act which provides that a plaintiff who has established trade dress infringement shall be entitled "subject to the principles of equity, to recover (1) defendant's profits," requires that a plaintiff must also establish that a defendant acted with willful deception in committing the trade dress infringement in order to recover such profits.

## LIST OF PARTIES

The caption of the case in this Court contains the names of all parties to the proceeding in the United States Court of Appeals for the Second Circuit, whose judgment is sought to be reviewed. There is no parent or subsidiary company of The George Basch Co. Inc., to be identified or listed under Rule 29.1 of the Rules of the Supreme Court of the United States.

TABLE OF CONTENTS


| | Page |
|---|---|
| Question Presented | i |
| List of Parties | ii |
| Table Of Authorities | v |
| Table of Conventions | vi |
| Opinions Below | 1 |
| Jurisdiction | 2 |
| Constitutional Provisions and Statutes Involved | 2 |
| Statement of the Case | 3 |
| Reasons for Granting the Petition | 6 |
| I. THIS CASE RAISES AN IMPORTANT QUESTION REGARDING THE REMEDIES AVAILABLE FOR TRADE DRESS INFRINGEMENT UNDER FEDERAL TRADEMARK AND UNFAIR COMPETITION LAW | 6 |
| A. The Court of Appeals' Conclusion That a Plaintiff Must Prove That a Defendant Acted With Willful Intent to Deceive the Public Before a Defendant May Be Held to Account For Profits Received in Conjunction With Trade Dress Infringement is Contrary to the Legislative Intent of the Lanham Act, Departs From Established Law in Other Circuits, and Creates Uncertainty as to the Remedies Available for Trade Dress Infringement | 6 |

Page

B. The Court of Appeals' Decision is Entirely Inconsistent With the Standard It Applies to an Award of Profits Pursuant to the Copyright Act and to the Remedies Provided by the Copyright and Patent Acts 13

Conclusion ..... 15

**Appendices**

A. Opinion of the Court of Appeals ..... A-1

B. Final judgment entered by the District Court ..... A-28

C. Memorandum of decision and order of the District Court ..... A-30

D. Special Verdict ..... A-35

E. List of entities related to or affiliated with corporate parties ..... A-39

Certificate of Service

## TABLE OF AUTHORITIES


| Cases: | Page(s) |
|---|---|
| *Burger King Corporation* v. *Mason*, 855 F.2d 779 (11th Cir. 1988) | 9 |
| *General Electric Co.* v. *Speicher*, 877 F.2d 531, 534 (7th Cir. 1989) | 10 |
| *Mishawaka Rubber & Woolen Manufacturing Co.* v. *S.S. Kresge Co.*, 316 U.S. 203, 206, 62 S.Ct. 1022, 86 L.Ed. 1381 (1942) | 8 |
| *N.A.S. Import Corp.* v. *Chenson Enterprises Inc.*, 23 U.S.P.Q.2d 1387, 1388 (2d Cir. 1992) | 14 |
| *Rogers* v. *Koons*, 960 F.2d 301, 313 (2d Cir. 1992) | 14 |
| *Roulo* v. *Russ Berrie & Co., Inc.*, 886 F.2d 931, 941 (7th Cir. 1989) *cert. denied* 110 S.Ct. 1124, 107 L. Ed.2d 1030, (1990) | 9 |
| *Shell Oil Company* v. *Commercial Petroleum Incorporated*, 928 F.2d 104, 108 (4th Cir. 1991) | 7 |
| *Trans-World Manufacturing* v. *Al Wyman & Sons, Inc.*, 224 U.S.P.Q. 259, 269 (CAFC 1984) | 14 |
| *Two Pesos, Inc.*, v. *Taco Cabana, Inc.*, 112 S.Ct. 2753, 120 L. Ed. 2d 615, 23 U.S.P.Q. 2d (BNA) 1081, (1992) | 6, 11 |
| *Wynn Oil Co.* v. *American Way Service Corporation*, 943 F.2d 595, 606 (6th Cir. 1991) | 9 |

Page

Constitutional and Legislative Authorities:

U.S. Const., Art. I, § 8 ..... 2

15 U.S.C. §1121 ..... 2

15 U.S.C. §1125(a) ..... 2

17 U.S.C. §504(b) ..... 13

28 U.S.C. §1254(1) ..... 2

28 U.S.C. §1291 ..... 2

28 U.S.C. §1338 ..... 2

35 U.S.C. §289 ..... 14

Other Authorities:

Senate Report No. 93-1400, 93d Cong. 2d Sess., 1974 pp. 7132, 7133, 7137 ..... 12, 13

H.R. Rep. No. 1476, 94th Cong., 2d Sess 161 .... 14

Table of Conventions

The following convention is used in this petition:

("Tr." page, "JA" page) [Trial Transcript, Joint Appendix]

No. 92

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1992

THE GEORGE BASCH CO., INC.,

*Petitioner,*

VS.

BLUE CORAL, INC., SIMONIZ CANADA, LTD., and MICHAEL MOSHONTZ,

*Respondents.*

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

## PETITION FOR A WRIT OF CERTIORARI

Petitioner, The George Basch Co., Inc., asks that a writ of certiorari issue to review the judgment entered by the United States Court of Appeals for the Second Circuit, entered June 30, 1992.

### Opinions Below

The opinion of the Court of Appeals is reported at 23 U.S.P.Q.2d (BNA) 1351, ___F.2d____, and reproduced as Appendix A. The final judgment entered by the United States District Court for the Eastern District of New York and the memorandum and decision of the District Court were not reported, but are reproduced as Appendices B and C.

## Jurisdiction

The judgment of the United States Court of Appeals for the Second Circuit is dated, and was entered, on June 30, 1992. This petition is filed within ninety (90) days of that date and, therefore is timely. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. §1254(1). The United States District Court for the Eastern District of New York had jurisdiction pursuant to 15 U.S.C. § 1121, 28 U.S.C. § 1338, and the doctrine of pendent jurisdiction. The Court of Appeals had jurisdiction pursuant to 28 U.S.C. § 1291 and 15 U.S.C. § 1121.

## Constitutional Provisions and Statutes Involved

The United States Constitution, Article 1, § 8 provides in pertinent part:

> The Congress shall have power . . .
>
> To promote the Progress of Science and Useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their Writings and Discoveries.

Title 15, Section 1125(a), United States Code, Section 35(a) of the Lanham Act, provides as follows:

### Monetary Relief

> When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 43(a), shall have been established in any civil action arising under this Act, the plaintiff shall be entitled, subject to the provisions of sections 29 and 32 and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must

> prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may, in its discretion, enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

**Statement of the Case**

Petitioner, The George Basch Co., Inc., ("Basch"), filed an action in the United States District Court for the Eastern District of New York against respondents, Blue Coral, Inc., Simoniz Canada Ltd. and Michael Moshontz (collectively, "Blue Coral") alleging that the trade dress of Blue Coral's EVER BRITE polish infringed the trade dress of Basch's NEVR-DULL polish in violation of § 43(a) of the Lanham Act and asserting additional claims arising under New York's unfair competition law.

At the close of the nine (9) day trial, the District Court instructed the jury, *inter alia*, that:

> . . . [T]he finding that Blue Coral intentionally copied the NEVR-DULL trade dress does not necessarily mean that you must find that Blue Coral infringed on NEVR-DULL trade dress. You must first find what that intention to copy went to. (Tr. 1742, JA 148)
>
> * * *
>
> The *intent* of the defendants in adopting the trade dress for EVER BRITE. *That is, whether there was an intent to benefit from Basch's protectable right in*

> *its NEVR-DULL trade dress.* (Tr. 1748, JA 153) (emphasis added)
>
> * * *
>
> The theory is that Blue Coral may not keep in it [sic] pocket what it actually made. It wouldn't be *equitable.* (Tr. 1761, JA 157)

The jury found that Basch's NEVR-DULL trade dress was inherently distinctive and had acquired secondary meaning, that Blue Coral intended to imitate Basch's NEVR-DULL trade dress with a resulting likelihood of confusion among consumers as to the source of Blue Coral's EVER BRITE polish, *i.e.*, as to whether EVER BRITE was manufactured by the maker of NEVR-DULL, and awarded $200,000 in Blue Coral's profits to Basch. The jury did not find that Blue Coral tortiously interfered with Basch's business relationships or that Blue Coral's actions in violation of Basch's rights were done wantonly and maliciously and in reckless disregard of Basch's rights. See Appendix D.

Subsequent to the trial, the District Court denied Blue Coral's motion for judgment n.o.v. and entered a final judgment in favor of Basch and against Blue Coral, awarding Basch the sum of $200,000 plus interest and its costs in the action and enjoining Blue Coral from using the EVER BRITE trade dress. See Appendix B.

Blue Coral appealed, asserting that Basch was not entitled to an award of profits as there was no evidence of deliberate, deceptive conduct by Blue Coral.

The Court of Appeals partially reversed the District Court's denial of Blue Coral's motion for judgment n.o.v., and vacated the jury's award. The Court held that "before a defendant may be held to account for profits received in conjunction with a trade dress infringement, a plaintiff must first prove that the defendant acted with willful intent to deceive the public." See Appendix A.

Circuit Judge Kearse in her opinion which dissented in part from the majority opinion of the Court of Appeals concluded that:

> Whether the final judgment reflects findings and conclusions by the Court or a refusal to set aside the jury's verdict, I think the award of profits was a remedy permitted by law and was supported by the findings of a properly instructed jury.

and based her opinion, in part, on the fact that:

> In the present case, the evidence was that Blue Coral, having been the exclusive distributor of Basch's NEVR-DULL in Canada, asked Basch to produce a Blue Coral version of the product that Blue Coral could distribute in the United States under its own trademark. When negotiations failed to achieve agreement, Blue Coral set out to copy Basch's NEVR-DULL. (See, e.g., Plaintiff's Exhibit 34, a Blue Coral document dated March 28, 1988, entitled "LABORATORY MEMORANDUM NO. 19[-] DUPLICATION OF NEVR-DULL," discussing "the feasibility of duplicating Nevr-Dull for manufacturing by Blue Coral.") See Appendix A

Judge Kearse's dissenting opinion not only found that the jury's award of profits was a remedy permitted by Section 35(a) of the Lanham Act, but also was supported by the facts of the case and should not have been vacated by the Court of Appeals.

## Reasons for Granting the Petition

### I. THIS CASE RAISES AN IMPORTANT QUESTION REGARDING THE REMEDIES AVAILABLE FOR TRADE DRESS INFRINGEMENT UNDER FEDERAL TRADEMARK AND UNFAIR COMPETITION LAW.

#### A. *The Court of Appeals' Conclusion That a Plaintiff Must Prove That a Defendant Acted With Willful Intent to Deceive the Public Before a Defendant May Be Held to Account For Profits Received in Conjunction With Trade Dress Infringement is Contrary to the Legislative Intent of the Lanham Act, Departs From Established Law in Other Circuits and Creates Uncertainty as to the Remedies Available for Trade Dress Infringement.*

The Court of Appeals' decision that a plaintiff who has established trade dress infringement and an intention on the part of a defendant to imitate the plaintiff's trade dress is not entitled pursuant to Section 35(a) of the Lanham Act to recover the defendant's profits earned as a result of the trade dress infringement is contrary to the legislative intent of the Lanham Act, is inconsistent with decisions of other circuits on the issue, and is inconsistent with the "principles of equity".

The Court of Appeals' decision also presents this Court with an opportunity to clarify the law with respect to the remedies available for trademark and trade dress infringement.

Four (4) days before the Court of Appeals rendered its decision, this Court reaffirmed its commitment to the importance of the protection of trade dress afforded by the intellectual property laws of the United States in *Two Pesos, Inc.*, v. *Taco Cabana, Inc.*, 112 S.Ct. 2753, 120 L. Ed.2d 615, 23 U.S.P.Q. 2d (BNA) 1081, (1992). The Court of Appeals' decision, if allowed

to stand, would cut the legs out from under this Court's decision in *Two Pesos* by allowing trademark and trade dress infringers to operate with impunity by denying the owner of a inherently distinctive trade dress or trademark any monetary relief for the infringement of his trade dress rights, unless he can prove a willful intent to deceive the public. The Court of Appeals' decision usurps and abrogates the remedy of the right to a defendant's profits which is provided for in Section 35(a) of the Lanham Act and stands in contradistinction to the standard applied to the remedies provided by the other federal intellectual property law statutes, *i.e.*, the Copyright Act and the Patent Act.

Section 35(a) of the Lanham Act specifically provides that the only preconditions, other than the provisions of the Lanham Act, to an award of monetary relief, which a plaintiff who has established trade dress infringement is entitled to recover, are the principles of equity. Section 35(a) of the Lanham Act also provides that "the Court may, in its discretion, enter judgment for such sum as the Court shall find to be just, according to the circumstances of the case" if the Court shall find that the amount of recovery based on profits is either inadequate or excessive. See *Shell Oil Company* v. *Commercial Petroleum Incorporated*, 928 F.2d 104, 108 (4th Cir. 1991) in which the Fourth Circuit held:

> *The Court has broad discretion to award monetary relief necessary to serve the interests of justice.* (emphasis added)

It has long been recognized that unjust enrichment is a principle of equity which requires an infringer to disgorge his ill-gotten gains. As the District Court held in its memorandum of decision and order:

> While some courts have interpreted the phrase "subject to the principles of equity" as incorporating a requirement of "bad faith" on the infringer's part, we are disinclined to follow that approach. A recent decision by the Seventh Circuit correctly holds that neither

> knowledge nor wrongful intent are necessary to recover profits under § 1117(a). In *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 588-89 (7th Cir. 1989), the court concluded that:
>
> [T]he principles of equity referred to in section 1117(a) do not in our view justify witholding all monetary relief from the victim of a trademark infringement merely because the infringement was innocent. As between the innocent infringer who seeks to get off scot-free, and the innocent infringed . . . *[The innocent infringed] is entitled at the very least either to simple damages or to the defendants' profits.*] (emphasis added). See Appendix C.

As this Court held in *Mishawaka Rubber & Woolen Manufacturing Co. v. S.S. Kresge Co.*, 316 U.S. 203, 206, 62 S. Ct. 1022, 86 L.Ed. 1381 (1942), equity requires the wrongdoer to disgorge his profits and it is assumed the wrongdoer intended to deceive the public by drawing upon the goodwill of the plaintiff's mark:

> There may well be a windfall to the trade-mark owner where it is impossible to isolate the profits which are attributable to the use of the infringing mark. *But to hold otherwise would give the windfall to the wrongdoer.* In the absence of his proving the contrary, it promotes honesty and comports with experience to *assume* that the wrongdoer who makes profits from the sales of goods bearing a mark belonging to another was enabled to do so because he was drawing upon the good will generated by that mark. And one who makes profits derived from the unlawful appropriation of a mark belonging to another cannot relieve himself of his obligation to restore the profits to their rightful owner merely by showing the latter did not choose to use the mark in the manner employed by the wrongdoer. (emphasis added).

The principle that equity acts to prevent a wrongdoer from profiting by its wrongful acts is a basic tenet courts consider

when awarding monetary relief pursuant to the Lanham Act. See *Wynn Oil Co.* v. *American Way Service Corporation* 943 F.2d 595, 606 (6th Cir. 1991) citing *Mishawaka, supra.*

The District Court in its discussion of profits in its decision cited *Roulo* v. *Russ Berrie & Co., Inc.*, 886 F.2d 931, 941 (7th Cir. 1989), *cert. denied*, 110 S.Ct.1124, 107 L.Ed.2d 1030 (1990) in which the Seventh Circuit held that:

> Other than general equitable considerations, *there is no express requirement that the parties be in direct competition or that the infringer wilfully infringe the trade dress to justify an award of profits.* See, *e.g.*, *Baker* v. *Simmons Co.*, 325 F.2d 580 (1st Cir. 1963), *certiorari denied*, 382 U.S. 820, 86 S.Ct. 49, 15 L.Ed.2d 67. Profits are awarded under different rationales including unjust enrichment, deterrence, and compensation. *Maltina*, 613 F.2d at 584-585, *Maier Brewing Co.* v. *Fleischman Distilling Corp.*, 390 F.2d 117, 123-124 (9th Cir. 1968), *certiorari denied*, 391 U.S. 966, 88 S.Ct. 2037, 20 L.Ed.2d 879.

The Seventh Circuit is not the only circuit which is in conflict with the Second Circuit's decision. The Eleventh Circuit in *Burger King Corporation* v. *Mason*, 855 F.2d 779 (11th Cir. 1988) also rejected the proposition that an award of profits is dependent upon a higher standard of culpability:

> *Nor is an award of profits based on either unjust enrichment or deterrence dependent upon a higher showing of culpability on the part of defendant, who is purposely using the trademark.* In *Wolfe* v. *National Lead Co.*, 272 F.2d 867 (9th Cir. 1959), *cert. denied*, 362 U.S. 950, 80 S. Ct.860, 4 L.Ed.2d 868 (1960), *overruled in part on other grounds, Maier Brewing Co.* v. *Fleischman Distilling Corp.*, 359 F.2d 165 (9th Cir. (1966), *the Ninth Circuit rejected good faith as a defense to an accounting for profits.* There the trademark infringer contended that he should not be

> held accountable for the profits he earned after he consulted an attorney who advised him he was not in infringement. The Ninth Circuit, in rejecting this claim, noted that the defendant had full knowledge of the facts and [plaintiff's] claim of infringement. Whether he believed himself to be within the law or not, he was knowingly and deliberately cashing in upon the goodwill of appellee. This is such an infringement as will justify an accounting of profits. 272 F.2d at 871. (emphasis added)

The Court of Appeals drew a distinction between a deliberate attempt to deceive and a deliberate attempt to compete and concluded that the jury's findings of trade dress infringement by Blue Coral and Blue Coral's intention to imitate Basch's NEVR-DULL trade dress did not amount to a finding of willful deception. Basch respectfully submits that the Court of Appeals misinterpreted the legislative intent of Section 35(a) of the Lanham Act and grafted onto it a standard for an award of profits which is nowhere contained in the Lanham Act.

As the Seventh Circuit held in *General Electric Co.* v. *Speicher*, 877 F.2d 531, 534 (7th Cir. 1989), a violation of the Lanham Act by its nature involves an intent to deceive:

> The literal sense might be the correct one if section 1114(1)(a) were aimed just at "counterfeiting." But as the words "reproduction," "copy," and "colorable imitation" suggest more clearly than "counterfeiting," *the aim is broader: to prohibit the use of your trademark on someone else's product without your authorization. The usual violator of this prohibition copies, reproduces, imitates—or if you will "counterfeits"—the trademark.*
>
> * * *
>
> . . .The more fundamental point is that *the purpose of trademark law is not to guarantee genuine trademarks but to guarantee that every item sold*

> *under a trademark is the genuine trademarked product and not a substitute.* (emphasis added)

As Justice Stevens noted in his concurring opinion in *Two Pesos, Inc.* v. *Taco Cabana, Inc.*, 112 S. Ct. 2753, 120 L. Ed.2d 615, 23 U.S.P.Q. 2d (BNA) 1081, (1992), the legislative intent of the Lanham Act is to provide uniform rights and remedies including the protection of the trademark owner's investment from misappropriation:

> For example, Congressman Lanham, the bill's sponsor, stated: "The purpose of [the Act] is to protect legitimate business and the consumers of the country".[15] 92 Cong. Rec. 7524 (1946). One way of accomplishing these dual goals was by creating uniform legal rights and remedies that were appropriate for a national economy.
>
> [15]The Senate Report elaborated on these two goals:
>
> The purpose underlying any trade-mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is the well established rule of law protecting both the public and the trade-mark owner. S. Rep. No. 1333, 79th Cong., 2d Sess., 3 (1946).

The Court of Appeals' decision that a plaintiff must prove a defendant acted with willful intent to deceive the public before a defendant may be held to account for profits received in connection with its trade dress infringement is contrary to the

legislative intent of Section 35(a) of the Lanham Act and is a conflation of the standard required by Section 35(a) for an award of attorney's fees. Section 35(a) provides that "the court in exceptional cases may award reasonable attorney fees to the prevailing party".

The legislative history of Section 35(a) clearly shows that the amendment to the Lanham Act providing for an award of attorney's fees to the prevailing party in exceptional cases was intended for those circumstances where the infringement may be characterized as willful:

> PURPOSE OF H.R. 8981
>
> The purpose of H.R. 8981 is to affect three minor changes in the Trademark Act of 1946, as amended:
>
> (3) *It would authorize award of attorney fees to the prevailing party in trademark litigation where justified by equitable considerations.* (emphasis added) Senate Report No. 93-1400, 93d Cong. 2d Sess., 1974, p. 7132.
>
> * * * *
>
> The Department of Commerce believes and the Committee agrees that the remedy should be available in exceptional cases, i.e., in infringement cases where the acts of infringement can be characterized as "malicious", "fraudulent", "deliberate" *or "willful"*. (emphasis added) Senate Report No. 93-1400, 93d Cong. 2d Sess, 1974, p. 7133.
>
> SECTIONAL ANALYSIS
>
> Section 3 provides that attorney fees may be awarded to the prevailing party in actions under the Federal Trademark Laws, *when equitable considerations justify such awards. It would make a trademark owner's remedy complete in enforcing his mark*

> *against willful infringers*, and would give defendants a remedy against unfounded suits. (emphasis added) Senate Report No. 93-1400, 93d Cong. 2d Sess., 1974, p. 7137.

The Court of Appeals in its decision stated that the decision whether or not to award attorney's fees is within the discretion of the district judge and concluded that:

> In view of the fact that there was *no finding of bad faith infringement* in this case, indeed, the jury specifically found that Blue Coral's actions in fashioning its EVER BRITE trade dress were not egregious, we find no abuse of discretion here. See Appendix B.

The Court of Appeals recognized in its decision that willful infringement is required for an award of attorney's fees. However, the Court of Appeals' decision that a plaintiff must prove a defendant acted with willfull intent to deceive the public before a defendant may be held to account for profits is contrary to the legislative intent of the Lanham Act, the principles of equity and is a conflation of the standard required for an award of attorney fees. In addition the Court of Appeals' decision departs from established law in other circuits and creates uncertainty as to the remedies available for trade dress infringement.

### B. *The Court of Appeals' Decision is Entirely Inconsistent With the Standard It Applies to an Award of Profits Pursuant to the Copyright Act and to the Remedies Provided by the Copyright and Patent Acts.*

The Court of Appeals' decision is inconsistent with the standard it applies to an award of profits pursuant to the Copyright Act and to the remedies provided by the Copyright and Patent Acts. Section 504(b) of the Copyright Act, 17 U.S.C. §504(b), provides, in pertinent part, that a copyright owner is entitled to recover "the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are

attributable to the infringement and are not taken into account in computing the actual damages". The remedies contained in Section 504(b) of the Copyright Act are similar to the remedies provided by Section 289 of the Patent Act, 35 U.S.C. § 289, which provides that the infringer of a design patent is liable to the patent owner for the total profit made from the infringement.

The Second Circuit in recent cases has awarded profits to a copyright owner to prevent the infringer from being unjustly enriched. See *N.A.S. Import Corp.* v. *Chenson Enterprises Inc.* 23 U.S.P.Q.2d 1387, 1388 (2nd Cir. 1992) and *Rogers* v. *Koons* 960 F.2d 301, 313 (2nd Cir. 1992).[1]

The Court of Appeals for the Federal Circuit which handles appeals on patent matters discussed the legislative intent of 35 U.S.C. § 289 in *Trans-World Manufacturing* v. *Al Wyman & Sons, Inc.*, 224 U.S.P.Q. 259, 269 (CAFC 1984) and noted that Congress enacted the provision to allow for recovery of an infringer's profits by the owner of a design patent.

The Court of Appeals for the Second Circuit has had no difficulty in applying the equitable principle of unjust enrichment in awarding profits in copyright cases, but refuses to apply the same principle of equity as required by the trademark law of the United States to trademark and trade dress cases. Instead, the Court of Appeals, contrary to the legislative intent of Section 35(a), has fashioned its own higher standard for an award of profits in trademark and trade dress cases by requiring that in order to recover profits the owner of a trademark or trade dress must prove not only infringement but also that the defendant intended to deceive the public.

This case presents this Court with the opportunity to clarify the law at the federal level and to provide for uniform remedies for violation of the Lanham Act.

---

[1] Such decisions are congruent with the legislative intent of the Copyright Act:

> Damages are awarded to compensate the copyright owner for losses from the infringement, *and profits are awarded to prevent the infringer from unfairly benefiting from a wrongful act.* (emphasis added)
>
> H.R. Rep. No. 1476, 94th Cong., 2d Sess 161

## CONCLUSION

For the foregoing reasons, the Court should grant the petition and review the decision of the Court of Appeals for the Second Circuit.

Dated: New York, New York
September 25, 1992

Respectfully submitted

By: Frank J. Colucci

FRANK J. COLUCCI
*Counsel of Record*

# APPENDIX

APPENDIX A

# UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

Nos. 1122, 1304—August Term, 1991

(Argued: April 22, 1992 Decided: June 30, 1992)

Docket Nos. 91-9212, 91-9214

THE GEORGE BASCH CO., INC.,

*Plaintiff-Appellee-Cross-Appellant,*

—v.—

BLUE CORAL, INC., SIMONIZ CANADA, LTD., and MICHAEL MOSHONTZ,

*Defendants-Appellants-Cross-Appellees.*

Before:

OAKES, *Chief Judge*, and
KEARSE and WALKER, *Circuit Judges*.

Appeal from the judgment and order of the United States District Court for the Eastern District of New York (Hon. Jacob Mishler, *Judge*, and jury) finding defendants had infringed the trade dress of plaintiff's wadding metal polish, awarding plaintiff $200,000 in defendants' prof-

its, and enjoining defendants from continuing to use the infringing trade dress.

Affirmed in part; reversed in part; and jury award vacated.

Kearse, *Circuit Judge*, dissents in part.

---

FRANK J. COLUCCI, New York, New York (Colucci & Umans), *for Plaintiff-Appellee-Cross-Appellant*.

LOUIS A. COLOMBO, Cleveland, Ohio (R. Scott Keller, Michael K. Farrell, Baker & Hostetler; Walter, Conston, Alexander & Green, New York, New York, of counsel), *for Defendants-Appellants-Cross-Appellees*.

---

WALKER, *Circuit Judge*:

Along with several issues regarding the particulars of injunctive relief, this case presents the general question of whether, in an action for trade dress infringement, a plaintiff may recover a defendant's profits without establishing that the defendant engaged in deliberately deceptive conduct. The district court concluded that bad faith was not a necessary predicate for an accounting. We disagree. Accordingly, we hold that in order to justify an award of profits, a plaintiff must establish that the defendant engaged in willful deception.

## BACKGROUND

The George Basch Co., Inc., ("Basch") manufactures and distributes NEVR-DULL, a cotton wadding metal polish. NEVR-DULL is packaged in a five ounce cylindrical metal can, about 3-$^1/_2$ inches high by 3-$^1/_2$ inches in diameter, and navy blue in color. Along with a product description and directions, the product's name is printed on the can in white block lettering. On either side of the product's name there are two red and white icons that depict what the product may be used for: the radiator grill of a car, silverware, a brass lamp, and a motor boat on a trailer.

Appellants, Blue Coral, Inc., its subsidiary Simoniz Canada Ltd., and their mutual president, Michael Moshontz (hereafter collectively referred to as "Blue Coral") manufacture and distribute a line of automotive wheel cleaning and polishing products. In both the United States and Canada, Blue Coral markets these products under the trademark ESPREE. In 1987, Blue Coral approached Basch with respect to becoming Basch's exclusive NEVR-DULL distributor in Canada. By agreement of the parties, effective July 28, 1987, Blue Coral became NEVR-DULL's exclusive Canadian distributor. NEVR-DULL was not sold under the ESPREE mark, and its Canadian trade dress remained substantially the same as the United States' version, with the exception that the French language was employed on the front of the can.

In April 1988, Blue Coral asked Basch to produce a wadding metal polish for Blue Coral to market in the United States. Blue Coral intended to add the polish to its line of ESPREE products. The parties negotiated through August of that year, at which time they ended their talks unsuccessfully due to an impasse regarding price. Blue

Coral ultimately contracted with another manufacturer of metal polish.

On July 25, 1988, Blue Coral introduced EVER BRITE—the new ESPREE wadding metal polish—into the United States market. EVER BRITE was packaged in the same size cylindrical metal can used by Basch to package NEVR-DULL. The base color of the EVER BRITE can was black. On its front appeared an angled silver grid-like background. Superimposed over the center of the grid, also on an angle, were large white block letters which read "EVER BRITE." Five different types of wheel faces were depicted in the upper right hand corner of the grid. To the right of the wheel faces appeared six red and white icons that represented silverware, chrome wheels, brassware, brass beds, copperware, and car bumpers and trim.

Relations between Basch and Blue Coral turned bleak. In March 1989, Basch terminated Blue Coral's Canadian distributorship. Approximately one year later, Blue Coral introduced EVER BRITE into the Canadian market. Blue Coral's Canadian trade dress was also substantially the same as its United States' version—merely substituting French print in some places on the can where English had been used, and placing a hyphen between EVER and BRITE where none had been before.

On March 7, 1989, Basch brought this action in the United States District Court for the Eastern District of New York, Hon. Jacob Mishler, *Judge*. In its complaint, Basch alleged trade dress infringement in violation of § 43(a) of the Lanham Act, *see* 15 U.S.C. § 1125(a), unfair competition under New York law, misappropriation of confidential business information, tortious interference with business relations, and violation of the New York

General Business Law, §§ 349(h) and 368(d). Blue Coral moved for summary judgment on all claims. The district court granted summary judgment for Blue Coral on the § 349(h) New York General Business Law count, but denied summary judgment on Basch's other claims.

The action was tried to a jury in July 1991. The district court directed a verdict in favor of Blue Coral with respect to Basch's claim for misappropriation of confidential business information. The court also ruled that, as a matter of law, Basch was precluded from receiving damages on its trade dress infringement claim because it had failed to produce any evidence regarding actual consumer confusion or that Blue Coral acted with intent to deceive the public.

The district court concluded, however, that despite Basch's failure to introduce evidence on either of these points, Basch could recover Blue Coral's profits if it succeeded on its trade dress infringement claim. The case was submitted to the jury by special verdict. The jury exonerated Blue Coral on the tortious interference count, but found against it on Basch's trade dress infringement claim. Accordingly, it awarded Basch $200,000 in Blue Coral's profits, allegedly stemming from Blue Coral's wrongful use of its EVER BRITE trade dress.

Blue Coral timely moved for judgment n.o.v. In its motion, Blue Coral argued that: (1) Basch had failed to prove that its NEVR-DULL trade dress enjoyed secondary meaning; (2) since Basch had not shown actual consumer confusion, or deceptive conduct on Blue Coral's part, Basch could not recover any of Blue Coral's profits; (3) it was for the district judge sitting as a court in equity, and not the jury, to make an award of profits; and (4) in any

event, the $200,000 award was grossly in excess of its actual profits.

The district court denied Blue Coral's motion, and entered its judgment which included the $200,000 jury award. The judgment also contained an injunction allowing Blue Coral to sell off its remaining inventory of infringing cans, but prohibiting any future use of the existing trade dress in the United States market. The district court also denied Basch's application for attorney fees. This appeal followed.

## DISCUSSION

### I. BLUE CORAL'S APPEAL

As amended and in relevant part, § 43(a) of the Lanham Act provides:

> Any person who, or in connection with . . . any container for goods, uses in commerce any word, term, name, symbol or device, or any combination thereof . . . which . . . is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods . . . by another person . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a)(1).

This provision protects what is known as a product's "trade dress" or packaging, which " 'involves the total image of a product and may include features such as size, shape, color or color combinations, texture, [or] graph-

ics.' " *LeSportsac, Inc. v. K Mart Corp.*, 754 F.2d 71, 75 (2d Cir. 1985) (quoting *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983)). Under § 43(a), in order to establish a defendant's liability for infringing upon an inherently distinctive trade dress, a plaintiff now need only prove that the defendant's trade dress will likely mislead consumers as to the source of the goods. *See Two Pesos, Inc. v. Taco Cabana, Inc.*, No. 91-971, slip op. at ___ (U.S. June 26, 1992).

Both in its motion for judgment n.o.v. before the district court, and on appeal, Blue Coral argued that Basch did not prove that its NEVR-DULL trade dress had acquired secondary meaning. Prior to the Supreme Court's recent decision in *Two Pesos*, absent proof of secondary meaning Basch would have failed to establish a *prima facie* case of trade dress infringement. *See Laureyssens v. Idea Group, Inc.*, No. 91-7869, slip op. 3753, 3763 (2d Cir. May 15, 1992); *Coach Leatherware Co., Inc. v. AnnTaylor, Inc.*, 933 F.2d 162, 168 (2d Cir. 1991); *Thompson Medical Co., Inc. v. Pfizer Inc.*, 753 F.2d 208, 217 (2d Cir. 1985). However, on appeal, we must apply the law as it exists as of the date of our decision. *See United States v. Security Industrial Bank*, 459 U.S. 70, 79 (1982). Since the jury specifically found that the NEVR-DULL trade dress was inherently distinctive, under *Two Pesos*, Blue Coral's secondary meaning argument is now moot.

We are aware, though, that Blue Coral did not have the opportunity to address whether or not the jury's finding of inherent distinctiveness was legally supportable. In a different case, we might order reargument solely on this one point. However, since for reasons that follow we conclude that the jury had sufficient evidence from which it could have reasonably inferred that the NEVR-DULL trade dress enjoyed secondary meaning, reargument is unnec-

essary. In other words, whether the NEVR-DULL trade dress is inherently distinctive as the jury found or not, Basch established a *prima facie* case of Lanham Act liability against Blue Coral.

A. *Secondary Meaning*

A product's trade dress has acquired "secondary meaning" when "the purchasing public has come to associate [its constituent] words, symbols, collocations of colors and designs, or other advertising materials . . . with goods from a single source." *RJR Foods, Inc. v. White Rock Corp.*, 603 F.2d 1058, 1059 (2d Cir. 1979). The "second" in secondary meaning signifies the fact that, with time and market exposure, a particular trade dress may come "to identify not only the goods but the source of the goods." *20th Century Wear, Inc. v. Sanmart-Stardust, Inc.*, 815 F.2d 8, 10 (2d Cir. 1988) (quoting *Ralston Purina Co. v. Thomas J. Lipton, Inc.*, 341 F. Supp. 129, 133 (S.D.N.Y. 1972)).

In ascertaining whether a trade dress has acquired such dual recognition, courts should consider such factors as: (i) plaintiff's advertising expenditures; (ii) consumer surveys linking the trade dress to a particular source; (iii) sales success; (iv) unsolicited media coverage; (v) attempts to plagiarize the trade dress; and (vi) the length and exclusivity of the use. *See id.* at 217; *Coach Leatherware*, 933 F.2d at 169. "[N]o 'single factor is determinative,' . . . and every element need not be proved." *Thompson Medical*, 753 F.2d at 217. (citation omitted).

Blue Coral argues that Basch failed to satisfy the " 'rigorous evidentiary requirements,' " entailed in proving secondary meaning. *20th Century Wear*, 815 F.2d at 10 (quoting *Ralston Purina Co.*, 341 F. Supp. at 134). The

district court rejected this contention, and denied Blue Coral's motion to set aside the jury's verdict insofar as it was grounded on Basch's failure to meet its evidentiary burden.

As we have stated in the past, judgment n.o.v. is reserved for those rare occasions when there is

> "such a complete absence of evidence supporting the verdict that the jury's finding could only have been the result o[f] sheer surmise and conjecture" or the evidence must be so overwhelming that reasonable and fair-minded persons could only have reached the opposite result.

*Stubbs v. Dudley*, 849 F.2d 83, 85 (2d Cir. 1988) (citations omitted). At trial, Basch presented evidence regarding the establishment of secondary meaning. To begin with, the record reflects that Basch has been selling NEVR-DULL in its current trade dress since 1983. Thus, at the time Blue Coral introduced its own EVER BRITE packaging, Basch's had been in circulation for close to six years. Furthermore, the jury was told that between 1986 and 1990, NEVR-DULL sales totalled approximately $7 million. In that period of time, Basch expended approximately $75,000 in advertising—running ads in various trade journals and specialty magazines, distributing miniature samples of its product, as well as sweatshirts depicting the NEVR-DULL trade dress.

Upon review, we note that Basch did not muster a strong case in support of secondary meaning. However, we cannot foreclose the possibility that a reasonable and fair-minded jury could have concluded that secondary meaning had developed. Therefore, we affirm the district court's judgment that Basch sufficiently established the

necessary elements to support the jury's finding of liability.

B. *Grounds for Awarding Profits*

We turn now to the issue of whether the district court correctly authorized an award of Blue Coral's profits. Section 35(a) of the Lanham Act generally provides that a successful plaintiff under the act shall be entitled, "subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) costs of the action." 15 U.S.C. § 1117(a). Clearly, the statute's invocation of equitable principles as guideposts in the assessment of monetary relief vests the district court with some degree of discretion in shaping that relief. *See id.*, (both damage and profit awards may be assessed "according to the circumstances of the case"). Nevertheless, that discretion must operate within legally defined parameters.

For example, it is well settled that in order for a Lanham Act plaintiff to receive an award of *damages* the plaintiff must prove either " 'actual consumer confusion or deception resulting from the violation,' " *Getty Petroleum Corp. v. Island Transportation Corp.*, 878 F.2d 650, 655 (2d Cir. 1989) (quoting *PPX Enterprises, Inc. v. Audiofidelity Enterprises, Inc.*, 818 F.2d 266, 271 (2d Cir. 1987)), or that the defendant's actions were intentionally deceptive thus giving rise to a rebuttable presumption of consumer confusion. *See Resource Developers, Inc. v. Statue of Liberty-Ellis Island Foundation, Inc.*, 926 F.2d 134, 140 (2d Cir. 1991); *PPX Enterprises*, 818 F.2d at 273. Here, Basch failed to present any evidence regarding consumer confusion or intentional deception. Accordingly, prior to the jury's deliberation, the district court correctly decided that damages were not an

available form of relief. Basch does not appeal from this ruling.

However, with respect to authorizing an award of Blue Coral's profits, the district judge concluded that § 35(a) affords a wider degree of equitable latitude. In denying its j.n.o.v. motion, the district court rejected Blue Coral's position that, absent a finding of defendant's willfully deceptive conduct, a court may not award profits. Rather, it relied upon contrary dictum in *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 588-89 (7th Cir. 1989), in determining that a Lanham Act plaintiff may be entitled to the profits of an innocent infringer, i.e., one who inadvertently misappropriates the plaintiff's trade dress. To the extent that the cases are ambiguous as to whether deceptive conduct is a necessary basis for an accounting, we take this opportunity to clarify the law.

The rule in this circuit has been that an accounting for profits is normally available "only if the 'defendant is unjustly enriched, if the plaintiff sustained damages from the infringement, or if the accounting is necessary to deter a willful infringer from doing so again.' " *Burndy Corp. v. Teledyne Industries, Inc.*, 748 F.2d 767, 772 (2d Cir. 1984) (quoting *W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970)). Courts have interpreted the rule to describe three categorically distinct rationales. *See e.g., Cuisinarts, Inc. v. Robot-Coupe Intern. Corp.*, 580 F. Supp. 634, 637 (S.D.N.Y. 1984) ("These justifications are stated in the disjunctive. Any one will do.").

Thus, the fact that willfulness expressly defines the third rationale (deterrence) may suggest that the element of intentional misconduct is unnecessary in order to require an accounting based upon a theory of unjust enrichment or damages. However, the broad language

contained in *Burndy Corp.* and *W.E. Bassett Co.* is in no way dispositive on this point. Indeed, a closer investigation into the law's historical development strongly supports our present conclusion that, under any theory, a finding of defendant's willful deceptiveness is a prerequisite for awarding profits.

*Unjust Enrichment*: The fact that an accounting may proceed on a theory of unjust enrichment is largely a result of legal institutional evolution. Prior to the fusion of law and equity under the Federal Rules of Civil Procedure, *see* Fed. R. Civ. P. 2., courts of law were the sole dispensary of damages, while the chancellor issued specific relief. However, in order to avoid piecemeal litigation, once a court of equity took jurisdiction over a case it would do complete justice—even if that entailed granting a monetary award. This resulted in the development of parallel remedial schemes.

Long ago, the Supreme Court explained the origin of profit awards in trademark infringement suits:

> The infringer is required in equity to account for and yield up his gains to the true owner [of the mark], upon a principle analogous to that which charges a trustee with the profits acquired by the wrongful use of the property of the *cestui que trust*. Not that equity assumes jurisdiction upon the ground that a trust exists. . . . [T]he jurisdiction must be rested upon some other equitable ground—in ordinary cases, as in the present, the right to an injunction—but the court of equity, having acquired jurisdiction upon such a ground, retains it for the purpose of administering complete relief, rather than send the injured party to a court of law for his damages. And profits are then

> allowed as an equitable measure of compensation, on the theory of a trust *ex maleficio*.

*Hamilton-Brown Shoe Co. v. Wolf Brothers & Co.*, 240 U.S. 251, 259 (1916).

Thus, a defendant who is liable in a trademark or trade dress infringement action may be deemed to hold its profits in constructive trust for the injured plaintiff. However, this results only "when the defendant's sales 'were attributable to its infringing use' of the plaintiff's" mark, *Burndy Corp.*, 748 F.2d at 772 (quoting *W.E. Bassett Co.*, 435 F.2d at 664), and when the infringing use was at the plaintiff's expense. *Id.* at 773. In other words, a defendant becomes accountable for its profits when the plaintiff can show that, were it not for defendant's infringement, the defendant's sales would otherwise have gone to the plaintiff. *Id.* at 772.

At bottom, this is simply another way of formulating the element of consumer confusion required to justify a damage award under the Lanham Act. As such, it follows that a profits award, premised upon a theory of unjust enrichment, requires a showing of actual consumer confusion—or at least proof of deceptive intent so as to raise the rebuttable presumption of consumer confusion. *See Resource Developers*, 926 F.2d at 140; *PPX Enterprises*, 818 F.2d at 273.

Moreover, the doctrine of constructive trust has traditionally been invoked to defeat those gains accrued by wrongdoers as a result of fraud. *See Latham v. Father Divine*, 299 N.Y. 22, 26-27, 85 N.E.2d 168, 170 (1949) ("A constructive trust will be erected whenever necessary to satisfy the demands of justice. . . . [I]ts applicability is limited only by the inventiveness of men who find new ways to enrich themselves by grasping what should not

belong to them."); *Restatement of Restitution*, § 160 cmt. d (1937); *cf Robert Stigwood Group Ltd. v. O'Reilly*, 530 F.2d 1096, 1100-1101 & n.9 (2d Cir.), *cert. denied*, 429 U.S. 848 (1976) (recognizing that imposition of a constructive trust over defendant's profits may be an available remedy for willful copyright infringement).

The rationale underlying the Supreme Court's holding in *Hamilton Shoe Co.* reflects this purpose. There, the Court upheld a profits award for trademark infringement where the "imitation of complainant's mark was fraudulent, [and] the profits included in the decree [were] confined to such as accrued to the defendant through its persistence in the unlawful simulation . . . ." 240 U.S. at 261. Thus, it would seem that for the defendant's enrichment to be "unjust" in terms of warranting an accounting, it must be the fruit of willful deception. *See El Greco Leather Products Co. v. Shoe World Inc.*, 726 F. Supp. 25, 29-30 (E.D.N.Y. 1989).

*Where Plaintiff Sustains Damages*: Historically, an award of defendant's profits has also served as a rough proxy measure of plaintiff's damages. *Champion Plug Co. v. Sanders*, 331 U.S. 125, 131 (1947); *Mishawaka Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 206 (1942); *Hamilton Shoe Co.*, 240 U.S. at 261-62; *see also, Restatement (Third) of Unfair Competition* § 37 cmt. b (Tent. Draft No.3, 1991) ("*Restatement*"). Due to the inherent difficulty in isolating the causation behind diverted sales and injured reputation, damages from trademark or trade dress infringement are often hard to establish. Recognizing this, the Supreme Court has stated that, "[i]nfringement and damage having been found, the Act requires the trademark owner to prove only the sales of articles bearing the infringing mark." *Mishawaka Mfg. Co.*, 316 U.S. at 206.

Under this rule, profits from defendant's proven sales are awarded to the plaintiff unless the defendant can show "that the infringement had no relationship" to those earnings. *Id.* This shifts the burden of proving economic injury off the innocent party, and places the hardship of disproving economic gain onto the infringer. Of course, this "does not stand for the proposition that an accounting will be ordered merely because there has been an infringement." *Champion Plug Co.*, 331 U.S. at 131. Rather, in order to award profits there must first be "a basis for finding damage." *Id.*; *Mishawaka Mfg. Co.*, 316 U.S. at 206. While a plaintiff who seeks the defendant's profits may be relieved of certain evidentiary requirements otherwise carried by those trying to prove damages, a plaintiff must nevertheless establish its general right to damages before defendant's profits are recoverable.

Thus, under the "damage" theory of profits, a plaintiff typically has been required to show consumer confusion resulting from the infringement. *Cf. Perfect Fit Indus., Inc. v. Acme Quilting Co.*, 618 F.2d 950, 955 (2d Cir.), *cert. denied*, 459 U.S. 832 (1980) (New York law of unfair competition); *G.H. Mumm Champagne v. Eastern Wine Corp.*, 142 F.2d 499, 501 (2d Cir.), *cert. denied*, 323 U.S. 725 (1944) (L. Hand, J.). Whether a plaintiff also had to show willfully deceptive conduct on the part of the defendant is not so clear. While some courts "rejected good faith as a defense to an accounting for profits," *Burger King Corp. v. Mason*, 855 F. 2d 779, 781 (11th Cir. 1988) (citing *Wolfe v. National Lead Co.*, 272 F.2d 867, 871 (9th Cir. 1959), *cert. denied*, 362 U.S. 950 (1960)), others have concluded that a defendant's bad faith is the touchstone of accounting liability. *Cf. Champion Plug Co.*, 331 U.S. at 131 (accounting was unavailable where "there ha[d] been no showing of fraud or palming off");

*Carl Zeiss Stiftung v. Veb Carl Zeiss Jena*, 433 F.2d 686, 706-08 (2d Cir. 1970) (discussing monetary awards which are inclusive of both damages and profits).

*Deterrence*: Finally, we have held that a court may award a defendant's profits solely upon a finding that the defendant fraudulently used the plaintiff's mark. *See Monsanto Chemical Co. v. Perfect Fit Mfg. Co.*, 349 F.2d 389, 396 (2d Cir. 1965), *cert. denied*, 383 U.S. 942 (1966). The rationale underlying this holding is not compensatory in nature, but rather seeks to protect the public at large. By awarding the profits of a bad faith infringer to the rightful owner of a mark, we promote the secondary effect of deterring public fraud regarding the source and quality of consumer goods and services. *Id.*; *W.E. Bassett Co.*, 435 F.2d at 664.

* * *

Although these three theories address slightly different concerns, they do share common ground. In varying degrees, a finding of defendant's intentional deceptiveness has always been an important consideration in determining whether an accounting was an appropriate remedy. In view of this, the American Law Institute has recently concluded that a finding of willful infringement is the necessary catalyst for the disgorgement of ill-gotten profits. *See Restatement*, § 37(1)(a) ("One . . . is liable for the net profits earned on profitable transactions resulting from [the infringement], if, but only if, the actor engaged in conduct with the intention of causing confusion or deception. . . .").

We agree with the position set forth in § 37 of the *Restatement* and therefore hold that, under § 35(a) of the Lanham Act, a plaintiff must prove that an infringer acted with willful deception before the infringer's profits are

recoverable by way of an accounting. Along with the *Restatement*'s drafters, we believe that this requirement is necessary to avoid the conceivably draconian impact that a profits remedy might have in some cases. While damages directly measure the plaintiff's loss, *defendant's* profits measure the defendant's gain. Thus, an accounting may overcompensate for a plaintiff's actual injury and create a windfall judgment at the defendant's expense. *See Restatement*, § 37 at cmt. e. Of course, this is not to be confused with *plaintiff's* lost profits, which have been traditionally compensable as an element of plaintiff's damages.

So as to limit what may be an undue windfall to the plaintiff, and prevent the potentially inequitable treatment of an "innocent" or "good faith" infringer, most courts require proof of intentional misconduct before allowing a plaintiff to recover the defendant's profits. *Id.*; *see also Alpo Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968 (D.C. Cir. 1990); *Frish's Restaurants, Inc. v. Elby's Big Boy*, 849 F.2d 1012, 1015 (6th Cir. 1988); *Schroder v. Lolitio*, 747 F.2d 801, 802 (1st Cir. 1984) (per curiam) (applying Rhode Island law). We underscore that in the absence of such a showing, a plaintiff is not foreclosed from receiving monetary relief. Upon proof of actual consumer confusion, a plaintiff may still obtain damages—which, in turn, may be inclusive of plaintiff's own lost profits. *See Getty Petroleum Corp.*, 878 F.2d at 655.

Neither *Burndy Corp.* or *W.E. Bassett Co.* rejects the notion that willful deceptiveness is a necessary predicate for an award of defendant's profits. *See El Greco Leather Products Co.*, 726 F. Supp. at 29. To the contrary, both cases reflect the centrality of this factor. For example, defendant's profits were denied in *Burndy Corp.* because the plaintiff failed to establish that its own sales were

diverted as a result of the infringement and that the defendant acted willfully. This finding precluded *both* unjust enrichment and deterrence as available grounds for relief. *See* 748 F.2d at 773. On the other hand, an accounting was ordered in *W.E. Bassett Co.* solely because the defendant had "deliberately and fraudulently infringed Bassett's mark." 435 F.2d at 664. Finally, to the extent that these cases suggest that a defendant's profits are recoverable whenever a plaintiff may obtain damages, we conclude that the language of *Burndy Corp.* and *W.E. Bassett Co.* was simply imprecise on this point, and we reject such a reading. *Cf. Carl Zeiss Stiftung*, 433 F.2d at 706-08.

Having stated that a finding of willful deceptiveness is necessary in order to warrant an accounting for profits, we note that it may not be sufficient. *See Springs Mills, Inc. v. Ultracashmere House, Ltd.*, 724 F.2d 352, 356 (2d Cir. 1983) ("an accounting may be appropriate whenever an infringer's conduct is willful"). While under certain circumstances, the egregiousness of the fraud may, of its own, justify an accounting, *see W.E. Bassett Co.*, 435 F.2d at 664, generally, there are other factors to be considered. Among these are such familiar concerns as: (1) the degree of certainty that the defendant benefited from the unlawful conduct; (2) availability and adequacy of other remedies; (3) the role of a particular defendant in effectuating the infringement; (4) plaintiff's laches; and (5) plaintiff's unclean hands. *See generally Restatement*, § 37(2) at cmt. f & cases cited in the reporter's notes. The district court's discretion lies in assessing the relative importance of these factors and determining whether, on the whole, the equities weigh in favor of an accounting. As the Lanham Act dictates, every award is "subject to equitable principles" and should be determined "according to the circumstances of the case." 15 U.S.C. § 1117.

In light of the foregoing legal analysis, the district court's error becomes apparent. To begin with, the district judge concluded that an accounting was warranted in order to prevent Blue Coral's unjust enrichment. However, as stated earlier, Basch produced no evidence to suggest that the infringement caused any sales diversion. As a result, there is nothing to suggest that Blue Coral's EVER BRITE sales were at Basch's expense. It follows that "an accounting based on unjust enrichment is precluded." *Burndy Corp.*, 748 F.2d at 773.

Secondly, even if Basch had shown loss of sales, it still would not have been entitled to an accounting for profits under a theory of unjust enrichment—or any other theory. The jury made no finding to the effect that Blue Coral was a bad faith infringer. Indeed, one reason why the judge refused to let the jury assess damages was the fact that Basch failed to present any evidence regarding bad faith infringement. Nevertheless, Basch argues that the court's jury instruction on liability—which suggested that the jury consider whether Blue Coral intended "to benefit" from Basch's NEVR-DULL trade dress—taken in conjunction with the special verdict finding that Blue Coral "intended to imitate Basch's NEVR-DULL trade dress," results in a constructive finding that Blue Coral engaged in intentionally deceptive conduct. We disagree.

There is an "essential distinction . . . between a deliberate attempt to deceive and a deliberate attempt to compete. Absent confusion, imitation of certain successful features in another's product is not unlawful and to that extent a 'free ride' is permitted." *Norwich Pharmaceutical Co. v. Sterling Drug, Inc.*, 271 F.2d 569, 572 (2d Cir. 1959) (citation omitted). Of course, even when a likelihood of confusion does arise, that does not inexorably lead to the conclusion that the defendant acted with delib-

erate deceit. Depending upon the circumstances, consumer confusion might as easily result from an innocent competitor who inadvertently crosses the line between a "free ride" and liability, as it could from a defendant's intentionally fraudulent conduct.

In this regard, we note that the jury specifically found that "the acts of [Blue Coral] in violation of Basch's rights [were not] done wantonly and maliciously and in reckless disregard of Basch's rights." This conclusion is buttressed by the fact this is not a case of a counterfeit trade dress from which a jury might infer that Blue Coral "intended to deceive the public concerning the origin of the goods." *WSM, Inc. v. Tennessee Sales Co.*, 709 F.2d 1084, 1087 (6th Cir. 1983). Thus, we find no merit in Basch's contention that the jury effectively concluded that Blue Coral acted with wrongful intent.

Accordingly, we reverse the district court's denial of Blue Coral's j.n.o.v. motion, insofar as it related to the availability of an accounting in this case, and we vacate the jury's profits award. Because we hold that an accounting was not available in this case, we need not reach the issue of whether it was appropriate for the jury to calculate profits.

## II. BASCH'S CROSS-APPEAL

### A. *The District Court's Injunction*

The district court's injunction restrained Blue Coral from using the present EVER BRITE trade dress in the United States, but authorized the defendan

> to manufacture, sell and distribute metal polishing cleaners in the same shape and size containers as pre-

> viously used in the infringing trade dress if the color of the can is either silver or red . . . with leave granted to plaintiff for additional relief based upon a showing of actual confusion.

The court's order also permitted Blue Coral to continue using its present trade dress outside of the United States, and to sell off its remaining inventory of infringing cans.

In its cross-appeal, Basch argues that this relief was insufficient. Specifically, Basch contends that: (1) the substantive breadth of the injunction is too narrow—i.e., a can by any other color is likely to confuse; (2) Blue Coral's authorization to use the trade dress outside the United States was based upon the court's erroneous legal conclusion that it lacked extraterritorial jurisdiction; and (3) the court erred in allowing Blue Coral to sell off its remaining inventory without ordering the defendant to account for the profits obtained from those sales. We find no merit in any of these arguments.

It is axiomatic that the contours of an injunction are shaped by the sound discretion of the trial judge and, barring an abuse of that discretion, they will not be altered on appeal. *Springs Mills, Inc.*, 724 F.2d at 355. Moreover, "a finding of likelihood of confusion in an infringement action does not automatically compel the issuance of an injunction . . . ." *Jim Beam Brands Co. v. Beamish & Crawford Ltd.*, 937 F.2d 729, 737 (2d Cir. 1991), *cert. denied*, 112 S. Ct. 1169 (1992); *see also Soltex Polymer Corp. v. Fortex Industries, Inc.*, 832 F.2d 1325, 1329-30 (2d Cir. 1987). If the trial judge ultimately determines that injunctive relief is warranted, "the relief granted should be no broader than necessary to cure the effects of the harm caused." *Soltex Polymer Corp.*, 832 F.2d at 1329.

The instant injunction is consistent with these principles. First, given the fact that the EVER BRITE trade dress is, at best, only moderately similar to the overall appearance of the NEVR-DULL can, we agree with the district court that there was no need for Blue Coral to make major aesthetic changes. Basch was unable to produce any evidence of actual consumer confusion between NEVR-DULL and EVER BRITE during the approximately three years that EVER BRITE used the infringing trade dress. This suggests to us that the likelihood of confusion created by Blue Coral was minimal, *see Plus Products v. Plus Discount Foods, Inc.*, 722 F.2d 999, 1006 (2d Cir. 1983), thereby requiring only minimal correction. The district court's assessment that a change of can color would supply the needed distinction between products seems reasonable. In any event, the district court granted Basch leave to apply for additional relief upon a future showing of actual confusion.

Second, there is absolutely no merit to Basch's argument that the district court refused to enjoin Blue Coral's use of the infringing trade dress in Canada because the court erroneously concluded that it lacked extraterritorial jurisdiction to do so. The district judge explicitly stated that "unless the plaintiff can show that it is somehow damaged by the sales of the Evr-Brite [sic] product in the cans . . . I will not enjoin the sale of Evr-Brite [sic] in Canada." Thus, the court's decision was based upon the plaintiff's lack of injury—not its own lack of power. *Cf. Playboy Enterprises v. Chuckleberry Pub., Inc.*, 511 F. Supp. 486, 495-96 (S.D.N.Y. 1981), *aff'd*, 687 F.2d 563 (2d Cir. 1982) (declining to enjoin foreign use of infringing mark where "[p]laintiff ha[d] not submitted evidence to determine whether consumers in other nations would also be confused").

Finally, we cannot fault the district court for allowing Blue Coral to liquidate its remaining inventory of infringing cans without requiring the defendant to account for the profits on those sales. Our approval stems largely from the fact that Basch never moved for a preliminary injunction to restrain Blue Coral's use of the trade dress in question. Actions speak louder than words, and motions speak loudest of all. Since Basch itself apparently concluded that the economic loss it was suffering, if any, did not warrant a remedy from the outset of this action, we cannot say that the district court abused its discretion in allowing Blue Coral to sell off its remaining cans and retain the profits. *Cf. E.I. Du Pont de Nemours & Co. v. Yoshida Int'l, Inc.*, 393 F. Supp. 502, 528 (E.D.N.Y. 1975) (in minimizing injury to good faith infringer, injunction may provide for a grace period before use of infringing mark is permanently restrained); *Carling Brewing Co. v. L. Fatato, Inc.*, 305 F. Supp. 1070, 1071 (E.D.N.Y. 1969) (use grace period incorporated into permanent injunction).

B. *Attorney Fees*

The Lanham Act provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 15 U.S.C. § 1117(a). The decision whether or not to award such fees also rests within the broad discretion of the district judge. *Getty Petroleum Corp. v. Bartco Petroleum Corp.*, 858 F.2d 103, 114 (2d Cir. 1988), *cert. denied*, 490 U.S. 1006 (1989). Basch argues that the district judge abused his discretion in denying its application for reasonable attorney fees. We disagree. In view of the fact that there was no finding of bad faith infringement in this case, indeed the jury specifically found that Blue Coral's actions in fashioning its EVER BRITE trade dress were not egregious, we find no

abuse of discretion here. *Orient Express Trading Co., Ltd. v. Federated Dep't Stores, Inc.*, 842 F.2d 650, 655 (2d Cir. 1988).

## CONCLUSION

Having reviewed the development of the relevant case law under §§ 43(a) and 35(a) of the Lanham Act, and having considered the underlying policies that the law seeks to implement, we conclude that before a defendant may be held to account for profits received in conjunction with a trade dress infringement, a plaintiff must first prove that the defendant acted with willful intent to deceive the public. Since the plaintiff in this case failed to establish this vital element, we partially reverse the district court's denial of Blue Coral's motion for judgment n.o.v., and vacate the jury award. We affirm the district court's grant of injunctive relief and denial of attorney fees.

Affirmed in part; reversed in part; and jury award vacated.

---

KEARSE, *Circuit Judge*, dissenting in part:

I respectfully dissent from so much of the majority decision as reverses the monetary award to plaintiff George Basch Co. ("Basch") on account of the infringement by defendant Blue Coral, Inc. ("Blue Coral"), of the trade dress for Basch's product, NEVR-DULL. The district court, though finding that damages were unavailable because there was no proof of actual consumer confusion, determined that an award to Basch of Blue Coral's profits was appropriate because Blue Coral had been unjustly enriched by its infringement. The court had noted that if

the question of profits was a matter to be decided by the court rather than the jury, the court would accept the jury's findings as advisory. *See* Fed. R. Civ. P. 39(c). Whether the final judgment reflects findings and conclusions by the court or a refusal to set aside the jury's verdict, I think the award of profits was a remedy permitted by law and was supported by the findings of a properly instructed jury.

The Lanham Act, 15 U.S.C. § 1051 et seq. (1988), provides, in pertinent part, that when the plaintiff has established a violation of § 1125(a), which prohibits, *inter alia*, trade practices that falsely indicate a product's origin, the plaintiff is generally entitled, "subject to the principles of equity, to recover (1) defendant's profits, [and] (2) any damages sustained by the plaintiff." 15 U.S.C. § 1117(a). The term "profits" is not coextensive with the term "damages," *see, e.g., Monsanto Chemical Co. v. Perfect Fit Products Manufacturing Co.*, 349 F.2d 389 (2d Cir. 1965) (affirming denial of damages, reversing denial of profits), *cert. denied*, 383 U.S. 942 (1966), and even where the plaintiff has not proven any loss of its own sales, and hence has not proven damages, an award of profits may be justified as an equitable remedy where the defendant has been unjustly enriched by his infringement, *see id.* at 395; *W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970) ("An accounting should be granted if the defendant is unjustly enriched . . . .").

In the present case, the evidence was that Blue Coral, having been the exclusive distributor of Basch's NEVR-DULL in Canada, asked Basch to produce a Blue Coral version of the product that Blue Coral could distribute in the United States under its own trademark. When negotiations failed to achieve agreement, Blue Coral set out to copy Basch's NEVR-DULL. (*See, e.g.*, Plaintiff's Exhibit

34, a Blue Coral document dated March 28, 1988, entitled "*LABORATORY MEMORANDUM NO. 19* [-] *DUPLICATION OF NEVR-DULL*," discussing "the feasibility of duplicating Nevr-Dull for manufacturing by Blue Coral.")

The jury was instructed, *inter alia*, that it could not find infringement of the NEVR-DULL trade dress simply on the basis that Blue Coral had intentionally copied it. Rather, it was told that if it found that Blue Coral had intentionally copied the NEVR-DULL trade dress, it could find infringement only if it also found a likelihood of confusion, which it might infer if it found "there was an intent to benefit from Basch's protectable right in its NEVR-DULL trade dress." The court also told the jury that the amount of monetary damages it could award for trade-dress infringement was "limited to what you find the defendant Blue Coral made as a result of the violation of Nevr-Dull trade dress." The court explained that the jury could properly award to Basch only the amount Blue Coral made that it would not be fair or equitable for Blue Coral to retain.

Having been thus instructed, the jury was asked the following questions and gave the following answers:

> "Was Basch's trade dress for its NEVR-DULL product inherently distinctive? Yes."
>
> "Did the trade dress for Basch's NEVR-DULL product acquire secondary meaning? Yes."
>
> "Did defendants intend to imitate Basch's NEVR-DULL trade dress? Yes."
>
> "Did defendants' use of its trade dress in marketing EVER BRITE create a likelihood of confusion among a substantial number of members of the consuming public as to the source of EVER BRITE, i.e.,

as to whether EVER BRITE was manufactured by the maker of NEVR-DULL? Yes."

"Did the violation of Basch's right(s) proximately cause damage to Basch? Yes."

The jury found that the "[p]rofits earned by Blue Coral due to trade dress infringement" totaled "$200,000."

These findings of Blue Coral's intentional copying of a distinctive trade dress that had acquired secondary meaning, thereby creating a likelihood of consumer confusion, in order to benefit from the breach of Basch's rights, and culminating in the unfair receipt by Blue Coral of $200,000 in profits due to the infringement, suffice, in my view, to support the conclusion that Blue Coral was unjustly enriched. I would affirm the district court's judgment that an award of profits was justified.

## APPENDIX B

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

----------x

THE GEORGE BASCH CO., INC.,

Plaintiff,

– against –

CV 89-0746

BLUE CORAL, INC., SIMONIZ CANADA, LTD., and MICHAEL MOSHONTZ,

JUDGMENT

Defendants.

----------x

This action came on for trial before the court and a jury, Honorable Jacob Mishler, District Judge, presiding, and the issues having been duly tried and the jury having duly rendered its verdict, it is

ORDERED and ADJUDGED

That plaintiff The George Basch Co., Inc. recover from the defendants Blue Coral, Inc., Simoniz Canada, Ltd. and Michael Moshontz the sum of $200,000, together with interest thereon from July 25, 1991 at the rate provided by law, and the costs of this action pursuant to 28 U.S.C. § 1920, and it is further

ORDERED that defendants, their servants, agents and employees, and all persons in active concert or participation with them be enjoined and restrained from using the EVER BRITE trade dress (shown in Exhibit 2 annexed to the complaint) in the manufacture, advertising, offering for sale, sale or distribution of goods of a similar nature not manufactured, sold, distributed by plaintiff in the United States (which includes

possessions and territories) and any other trade dress which is likely to cause confusion or to cause mistake or likely to cause mistake or to deceive persons into believing that defendants' product is plaintiff's product, or is authorized by plaintiff.

Defendants are not enjoined or restrained from transporting and delivering wadding polish in the container it presently uses for sale and distribution outside the United States, its possessions and territories. Defendants are permitted to dispose of approximately 32,000 cases of EVER BRITE in the infringing trade dress which Blue Coral had on hand as of July 25, 1991.

Defendants are authorized to manufacture, sell and distribute metal polishing cleaners in the same shape and size containers as previously used in the infringing trade dress if the color of the can is either silver or red in the form submitted to the court, with leave granted to plaintiff for additional relief based on a showing of actual confusion.

Dated at Uniondale, New York this
16th day of October, 1991.

/s/ Jacob Mishler

JACOB MISHLER, U.S. District Judge

APPENDIX C

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK
.....X

THE GEORGE BASCH CO., INC.,

Plaintiff,

- against -

BLUE CORAL, INC.,
SIMONIZ CANADA, LTD., and
MICHAEL MOSHONTZ,

Defendants.
.....X

CV 89-0746

Memorandum
of Decision
and Order

October 16, 1991

APPEARANCES:

COLUCCI & UMANS, ESQS.
Attorneys for Plaintiff
Manhattan Tower
101 East 52nd Street
New York, New York 10022
Frank J. Colucci, Esq., *Of Counsel*

WALTER, CONSTON, ALEXANDER & GREEN, P.C.
Attorneys for Defendants
90 Park Avenue
New York, New York 10016
Alan Kanzer, Esq., *Of Counsel*

BAKER & HOSTETLER, ESQS.
Attorneys for Defendants
3200 National City Center
Cleveland, Ohio 44114
Bruce O. Baumgartner, Esq., *Of Counsel*
R. Scott Keller, Esq., *Of Counsel*
Michael K. Farrell, Esq., *Of Counsel*

MISHLER, District Judge

Defendants (referred to herein as "Blue Coral") move for judgment notwithstanding the verdict ("J.N.O.V.") setting aside the jury's finding of liability for trade dress infringement and the accompanying damage award of $200,000 representing infringer's profits.

## BACKGROUND

This case involved a trademark dispute between plaintiff, The George Basch Co., Inc. ("Basch") and defendant Blue Coral over the marketing of a car polish known as EVER BRITE. In its complaint, Basch claimed that Blue Coral's marketing of EVER BRITE wadding polish infringed upon the trade dress of plaintiff's NEVR-DULL product and was, therefore, in violation of section 43(a) of the Lanham Act [15 U.S.C. § 1125(a)].

Following an eight day trial, the jury determined, *inter alia*, that: (1) Basch's trade dress for its NEVR-DULL polish was inherently distinctive and had acquired secondary meaning; (2) Blue Coral intended to imitate the trade dress of Basch's NEVR-DULL polish; and (3) Blue Coral's use of its EVER BRITE trade dress created a likelihood of confusion among a substantial number of members of the consuming public as to the source of EVER BRITE, i.e., as to whether EVER BRITE was manufactured by the maker of NEVR-DULL.

After determining that Blue Coral's acts proximately caused damage to Basch, the jury awarded Basch $200,000 in compensatory damages, which represented the profits earned by Blue Coral due to its infringement of Basch's trade dress. Blue Coral now moves this court for J.N.O.V. setting aside the jury's award of defendants' profits and the finding of liability.

## DISCUSSION

The standard for granting a J.N.O.V. motion is appropriately very strict. A judgment notwithstanding the verdict is permissible only when, without weighing the credibility of witnesses, the facts and inferences point so strongly and overwhelmingly in favor of one party, that a reasonable jury could

not arrive at a contrary verdict. *See Rixey v. West Paces Ferry Hosp., Inc.*, 916 F.2d 608, 611 (11th Cir. 1990); *Stubbs v. Dudley*, 849 F.2d 83, 85 (2d Cir. 1988), *cert. denied*, 489 U.S. 1034, 109 S.Ct. 2095 (1989)

When deciding a J.N.O.V. motion, the district court must view the evidence in the light and with all reasonable inferences most favorable to the party opposed to the motion. *Rixey*, 916 F.2d at 611; *Grant v. Preferred Research, Inc.*, 885 F.2d 795, 798 (11th Cir. 1989); *Aaron Ferer & Sons, Ltd. v. Chase Manhattan Bank*, 731 F.2d 112, 121 (2d Cir. 1984). "Where substantial conflicting evidence exists in the record, a judgment notwithstanding the verdict is improper." *Rixey*, 916 F.2d at 611.

**The Issue of Liability**

To prevail on a claim of trade dress infringement under § 43(a) of the Lanham Act, [15 U.S.C. § 1125(a)], a plaintiff must make the following two-part showing: (1) that the trade dress has acquired secondary meaning, *see LeSportsac, Inc. v. K Mart Corp.*, 754 F.2d 71, 75 (2d Cir. 1985); *Time Inc. Magazine Co. v. Globe Comm. Corp.*, 712 F.Supp. 1103, 1109 (S.D.N.Y. 1989) (secondary meaning not required under New York law where there is a finding of "intentional copying of the trade dress"); and (2) that there is a "likelihood of confusion" as to the source of the two products, *see LeSportsac*, 754 F.2d at 75 (plaintiff must show that competitor's product design or packaging is "likely to confuse consumers as to the product source – such a design or packaging falsely designates its origin"); *Lever Bros. v. American Bakeries Co.*, 693 F.2d 251, 253 (2d Cir. 1982) ("a likelihood that an appreciable number of ordinary prudent purchasers will be misled, or simply confused, as to the source of the goods in question").

The record discloses ample evidence to support the jury's determination that Basch's trade dress for its NEVR-DULL product was distinctive and had acquired secondary meaning. The jury's finding of intent to imitate provides both a factual and legal basis for this conclusion. Basch thus had a protectible right in the trade dress. *See Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc.*,

781 F.2d 604, 608 (7th Cir. 1986); *LeSportsac*, 754 F.2d at 75. In addition, there was sufficient evidence to support the jury's finding that Blue-Coral's trade dress created a "likelihood of confusion" as to source. For these reasons, we deny Blue Coral's J.N.O.V. motion with respect to liability.

**The Issue of Damages**

We now turn to the second aspect of Blue Coral's J.N.O.V. motion, the question of damages. In seeking to set aside the jury's award of $200,000 in compensatory damages, Blue Coral argues that: (1) damages based on the defendant's profits is a question solely for the court, not the jury, to decide; and (2) that such damages may be awarded only where the infringing acts are committed "with deliberate intent to cause confusion, mistake or to deceive purchasers; in other words, to purposely palm off" their goods as those of the plaintiff.

In addressing the question of whether Basch is entitled to an accounting of defendant's profits, we must turn to the relevant statutory provision, § 35 of the Lanham Act [15 U.S.C. § 1117(a)]. Section 35 provides that a prevailing plaintiff is entitled, "*subject to the principles of equity*, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action." Other than general equitable considerations, there is no express requirement that the infringer wilfully infringe the trade dress to justify an award of profits. *See Roulo v. Russ Berrie & Co., Inc.*, 886 F.2d 931, 941 (7th Cir. 1989), *cert. denied*, 110 S.Ct. 1124, 107 L.Ed.2d 1030 (1990).

While some courts have interpreted the phrase "subject to the principles of equity" as incorporating a requirement of "bad faith" on the infringer's part, we are disinclined to follow that approach. A recent decision by the Seventh Circuit correctly holds that neither knowledge nor wrongful intent are necessary to recover profits under § 1117(a). In *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 588-89 (7th Cir. 1989), the court concluded that:

> [T]he principles of equity referred to in section 1117(a) do not in our view justify withholding all monetary relief from the victim of a trademark infringement

> merely because the infringement was innocent. As between the innocent infringer who seeks to get off scot-free, and the innocent infringed . . . . , the stronger equity is with the innocent infringed . . . *[The innocent infringed] is entitled at the very least either to simple damages or to the defendants' profits.* (emphasis added).

Although guided by equitable principles, the decision on whether to award profits rests within the broad discretion of the district court, *Burndy Corp. v. Teledyne Industries, Inc.*, 748 F.2d 767, 772 (2d Cir. 1984), and need only be "fair and just." *See El Greco Leather Products Co. v. Shoe World, Inc.*, 726 F.Supp. 25, 26 (E.D.N.Y. 1989). Here, we find that the jury's award of $200,000 is both "fair and just" and consistent with the principles of equity in that Blue Coral will not be unjustly enriched. *See W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970) (stating that an accounting of profits is justified in cases where defendant is unjustly enriched). Moreover, it was entirely within the discretion of the court to instruct the jury that an award of profits would be appropriate. *See Roulo v. Russ Berrie & Co., Inc.*, 886 F.2d 931, 941 (7th Cir. 1989), *cert. denied*, 110 S.Ct. 1124, 107 L.Ed.2d 1030 (1990).

**ORDER**

Blue Coral's motion for J.N.O.V. is in all respects denied, and it is

SO ORDERED.

/s/ Jacob Mishler

U. S. D. J.

APPENDIX D

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK
.....X

THE GEORGE BASCH CO., INC., CV 89-0746

Plaintiff,

- against - SPECIAL VERDICT

BLUE CORAL, INC.,
SIMONIZ CANADA, LTD., and
MICHAEL MOSHONTZ,

Defendants.
.....X

Plaintiff The George Basch Co., Inc. (Basch) has the burden of establishing the affirmative (Yes) on all questions, except question 7, by a preponderance of the evidence.

I. *Liability*

*Trade Dress Infringement*

1(a). Was Basch's trade dress for its NEVR-DULL product inherently distinctive?

Yes ✓ No _____

1(b). Did the trade dress for Basch's NEVR-DULL product acquire secondary meaning?

Yes ✓ No _____

[If the answers to both (a) and (b) are *NO* do not answer 2 or 3].

2. Did defendants intend to imitate Basch's NEVR-DULL trade dress?

Yes ✓ No _____

3. Did defendants' use of its trade dress in marketing EVER BRITE create a likelihood of confusion among a substantial number of members of the consuming public as to the source of EVER BRITE, i.e., as to whether EVER BRITE was manufactured by the maker of NEVR-DULL?

Yes ✓ No _____

*Tortious Interference*

4. Did defendants interfere with Basch's relationship with its customers by inducing such customers to stop doing business with Basch?

Yes _____ No ✓

[If the answer to 4 is *NO* do not answer 5, 6 or 7].

5. Was the act of interference by defendants done with the intent to injure or destroy Basch's business?

Yes _____ No _____

6. Was such interference in violation of the usual business practices in the industry?

Yes _____ No _____

*Justification*

[Defendants have the burden of establishing the affirmative (YES) on Question 7].

7. In interfering with Basch's business relationship were defendants pursuing a valid economic interest in competing for the customer's business?

Yes _____ No _____

II. *Causal Relation*

[Answer 8 only if the answer to 1 and 3, or 5 or 6 is *YES*].

8. Did the violation of Basch's right(s) proximately cause damage to Basch?

Yes ✓ No _____

[If the answer to 8 is *NO* do not answer 9, 10 or 11].

III. *Damages*

*Compensatory Damages*

9 (a) Loss to date of profits because of tortious interference with Kingsway, W.D. Industries and Harly Products relationship $ _____

(b) Future loss of profits due to tortious interference $ _____

(c) Profits earned by Blue Coral due to trade dress infringement other than awarded above for tortious interference $ 200,000

*Punitive Damages*

10. Were the acts of defendants in violation of Basch's rights done wantonly and maliciously and in reckless disregard of Basch's rights?

Yes _____ No ✓

[If the answer to 10 is *NO* do not answer 11].

11. Punitive damages are awarded in favor of Basch as follows:

(a) against Blue Coral, Inc. in the amount of $_____.

(b) against Simoniz Canada, Ltd. in the amount of $_____.

(c) against Michael Moshontz in the amount of $_____.

Total Punitive Damages $_____.

Dated: Uniondale, NY
July 25, 1991 /s/ Foreperson

## APPENDIX E

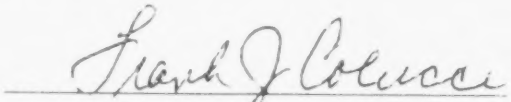
List of Entities Related to or Affiliated With Corporate Parties

There are no entities related or affiliated with the parties.

## CERTIFICATE OF SERVICE

The undersigned counsel of record for Petitioner certifies that he is a member of the Bar of this Court and that to his knowledge, on September 25, 1992, within the permitted time, three copies of the Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit were served upon counsel for Respondents by mail, first-class postage prepaid, in New York, New York, addressed as follows:

LOUIS A. COLOMBO, ESQ.
BAKER & HOSTLER
3200 National City Center
Cleveland, Ohio 44114-3401
*Attorneys for Respondents*



/s/ FRANK J. COLUCCI
*Counsel of Record*

(2)

Supreme Court, U.S.
FILED
OCT 27 1992
OFFICE OF THE CLERK

# No. 92-530

IN THE

# Supreme Court of the United States

October Term, 1992

THE GEORGE BASCH CO., INC.,
*Petitioner,*

vs.

BLUE CORAL, INC., SIMONIZ CANADA, LTD.,
and MICHAEL MOSHONTZ,
*Respondents.*

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

## RESPONDENTS' BRIEF IN OPPOSITION

LOUIS A. COLOMBO
*Counsel of Record*
R. SCOTT KELLER
MICHAEL K. FARRELL
BAKER & HOSTETLER
3200 National City Center
1900 East 9th Street
Cleveland, Ohio 44114-3485
(216) 621-0200
*Attorneys for Respondents Blue Coral, Inc., Simoniz Canada, Ltd., and Michael Moshontz*

BEST AVAILABLE COPY

THE GATES LEGAL PUBLISHING CO., CLEVELAND, OHIO—TEL. (216) 621-5647

## COUNTERSTATEMENT OF THE QUESTION PRESENTED

Whether in an action for trade dress infringement under the Lanham Act a plaintiff may recover the profits made by the defendant when there is neither evidence of intentionally deceptive conduct by the defendant nor evidence of actual consumer confusion as to the source of the products at issue.[1]

[1] Petitioner's statement of the Question Presented mischaracterizes the monetary award in this case as "compensatory damages." The amount awarded was not compensatory damages, but an award of the profits made by respondents.

## LIST OF PARTIES AND RULE 29.1 STATEMENT

The caption of the case in this Court lists all parties to the proceeding in the United States Court of Appeals for the Second Circuit, whose judgment is sought to be reviewed. The subsidiary corporations of respondent Blue Coral, Inc. to be listed pursuant to Rule 29.1 of the Rules of the Supreme Court of the United States are NicSand, Inc., a 66-2/3% owned subsidiary of Blue Coral, Inc.; Blue Coral Chemical Company, Inc., a 79% owned subsidiary of Blue Coral, Inc.; and Blue Coral International Limited, a 79% owned United Kingdom subsidiary of Blue Coral, Inc. Respondent Simoniz Canada, Ltd. is a 79% owned Canadian subsidiary of Blue Coral, Inc. and has no subsidiary corporations to be listed pursuant to Rule 29.1.

## TABLE OF CONTENTS

COUNTERSTATEMENT OF THE QUESTION PRESENTED ..... i

LIST OF PARTIES AND RULE 29.1 STATEMENT ..... ii

TABLE OF CONTENTS ..... iii

TABLE OF AUTHORITIES ..... iv

OPINIONS BELOW ..... 2

STATUTE INVOLVED ..... 3

STATEMENT OF THE CASE ..... 4

A. Summary Of Facts ..... 4

B. Procedural History ..... 4

REASONS FOR DENYING THE WRIT ..... 8

A. This Case Does Not Present An Important Or Novel Question Of Law Which Warrants Review By This Court ..... 8

B. The Decision Of The Court Of Appeals Does Not Conflict With The Decisions Of This Court Or The Decisions Of Other Circuits ... 11

C. The Decision Of The Court Of Appeals Does Not Conflict With The Legislative History Or Intent Of The Lanham Act ..... 14

D. Differences Between Cases Decided Under The Lanham Act And Cases Decided Under The Copyright Or Patent Acts Do Not Warrant Review By This Court ..... 17

CONCLUSION ..... 19

## TABLE OF AUTHORITIES

### Cases

*Alpo Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958 (D.C. Cir. 1990) ..... 13

*Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979) ..... 17

*Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903 (Fed. Cir. 1984) ..... 14

*Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) ..... 15

*Burger King Corp. v. Mason*, 855 F.2d 779 (11th Cir. 1988) ..... 13

*Burndy Corp. v. Teledyne Indus., Inc.*, 748 F.2d 767 (2d Cir. 1984) ..... 8,9

*Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947) ..... 8,12

*Frisch's Restaurants, Inc. v. Elby's Big Boy*, 849 F.2d 1012 (6th Cir. 1988) ..... 14

*G.H. Mumm Champagne v. Eastern Wine Corp.*, 142 F.2d 499 (2d Cir.), *cert. denied*, 323 U.S. 715 (1944) ..... 10

*General Elec. Co. v. Speicher*, 877 F.2d 531 (7th Cir. 1989) ..... 12

*Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251 (1916) ..... 9

*Harper & Row, Publishers, Inc. v. Nation Enters., Inc.*, 471 U.S. 539 (1985) ..... 17

*Ironite Co. v. Guarantee Waterproofing Co.*, 64 F.2d 608 (8th Cir. 1933) ..... 3

*Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974) ..... 17

*Louis Vuitton S.A. v. Lee*, 875 F.2d 584 (7th Cir. 1989) ..... 12

*Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203 (1942) ..... 12

*Perfect Fit Indus., Inc. v. Acme Quilting Co.*, 618 F.2d 950 (2d Cir. 1980), *cert. denied*, 459 U.S. 832 (1982) ..... 10

*Raxton Corp. v. Anania Associates, Inc.*, 668 F.2d 622 (1st Cir. 1982) ..... 14

*Reader's Digest Ass'n., Inc. v. Conservative Digest, Inc.*, 821 F.2d 800 (D.C. Cir. 1987) ..... 14

*Roulo v. Russ Berrie & Co.*, 886 F.2d 931 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990) ..... 13

*Scarves By Vera, Inc. v. Todo Imports, Inc.*, 544 F.2d 1167 (2d Cir. 1976) ..... 8

*Two Pesos, Inc. v. Taco Cabana, Inc.*, 112 S. Ct. 2753 (1992) ..... 11,14

*W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656 (2d Cir. 1970) ..... 9

*Wynn Oil Co. v. American Way Serv. Corp.*, 943 F.2d 595 (6th Cir. 1991) ..... 13

**Constitutional and Legislative Authorities**

15 U.S.C. §1117(a) . . . . . 3,15

15 U.S.C. §1125(a) . . . . . 4

17 U.S.C. §504(b) . . . . . 17

35 U.S.C. §289 . . . . . 17

New York General Business Law §349(h) . . . . . 5

New York General Business Law §368(d) . . . . . 5

U.S. Const. art. I, §8, cl. 3 . . . . . 3

U.S. Const. Art I, §8, cl. 8 . . . . . 3

**Other Authorities**

Senate Report No. 93-1400, 93d Cong. 2d Sess. 1974, p. 7136 . . . . . 16

# No. 92-530

IN THE

# Supreme Court of the United States

October Term, 1992

THE GEORGE BASCH CO., INC.,
*Petitioner,*

vs.

BLUE CORAL, INC., SIMONIZ CANADA, LTD.,
and MICHAEL MOSHONTZ,
*Respondents.*

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

## RESPONDENTS' BRIEF IN OPPOSITION

Respondents Blue Coral, Inc., Simoniz Canada, Ltd. and Michael Moshontz respectfully request that this Court deny the Petition for A Writ of Certiorari seeking review of the decision of the United States Court of Appeals for the Second Circuit.

## OPINIONS BELOW

The opinion of the United States Court of Appeals for the Second Circuit is reported at 968 F.2d 1532 and is reproduced as Appendix A to the Petition for A Writ of Certiorari. The judgment entered by the United States District Court for the Eastern District of New York and the memorandum and decision of the District Court were not reported and are reproduced as Appendices B and C to the Petition for A Writ of Certiorari.

## STATUTE INVOLVED

### 15 U.S.C. §1117(a)

**§1117. Recovery for violation of rights; profits, damages and costs; attorney fees; treble damages**

(a) When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 43(a) [15 USCS §1125(a)], shall have been established in any civil action arising under this Act, the plaintiff shall be entitled, subject to the provisions of sections 29 and 32 [15 USCS §§1111, 1114], and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.[2]

[2] It is fundamental that the constitutional authority for the Lanham Act is derived from the commerce clause (U.S. Const. art. I, §8, cl. 3), not the patent and copyright clause (art. I, §8, cl. 8) as petitioner's statement of the Constitutional Provisions and Statutes Involved indicates. *Ironite Co. v. Guarantee Waterproofing Co.*, 64 F.2d 608, 610-11 (8th Cir. 1933).

## STATEMENT OF THE CASE

### A. Summary Of Facts

Petitioner The George Basch Co., Inc. ("petitioner") manufactures and distributes a cotton wadding metal polish which it sells under the name NEVR-DULL.[3] The NEVR-DULL trade dress is unremarkable, consisting of a navy blue, 5-ounce cylindrical metal can with simple, horizontal white block lettering and simple red and white graphics. (A-3.)

Respondents Blue Coral, Inc. and Simoniz Canada, Ltd. manufacture and distribute a wadding metal polish called EVER BRITE. Respondent Moshontz is president of both companies.[4] (A-3-4.) The EVER BRITE trade dress consists of depictions of various types of wheels, an angled, silver, grid-like pattern in the background, the name EVER BRITE printed in white block letters in an upward slant, respondents' registered ESPREE trademark printed in yellow directly above the product name, and descriptive wording in yellow below the product name. The base color of the EVER BRITE can is black. (A-4.)

### B. Procedural History

In March 1989, petitioner brought this action in the United States District Court for the Eastern District of New York. Petitioner's complaint asserted claims for trade dress infringement under the Lanham Act (15 U.S.C. §1125(a)), unfair competition under New York law, misappropriation of confidential business information,

---

[3] A full statement of facts is included in the decision of the Court of Appeals and is incorporated herein by reference. Citations herein are to the decision as reproduced in the Appendix to the Petition for a Writ of Certiorari ("petition").

[4] Hereinafter, Blue Coral, Inc., Simoniz Canada, Ltd. and Mr. Moshontz are collectively referred to as "respondents."

tortious interference with business relationships, and violation of New York General Business Law Sections 349(h) and 368(d). (A-4.) All of these claims were based upon respondents' development and sale of EVER BRITE in a package which petitioner claimed infringed the trade dress of NEVR-DULL.

In May 1990, respondents moved for summary judgment on all of petitioner's claims. The district court entered summary judgment for respondents on petitioner's claim under New York General Business Law Section 349(h) and denied summary judgment as to the other claims. (A-5.)

Petitioner's remaining claims were tried to a jury in July 1991. The district court directed a verdict for respondents on petitioner's claim for misappropriation of confidential business information at the close of petitioner's case. At the close of all the evidence, respondents sought a directed verdict on petitioner's remaining claims. The district court denied respondents' motion, but held that petitioner was precluded from recovering damages for trade dress infringement because petitioner had **conceded** that it could not show actual confusion and there was no evidence that respondents acted with intent to deceive the public. The district court also ruled, however, that notwithstanding petitioner's inability to demonstrate actual confusion or intent to deceive, petitioner would still be entitled to recover respondents' profits if petitioner prevailed on its trade dress infringement claim. (A-5.)

The case was then submitted to the jury by way of special verdict. The jury found that respondents did not tortiously interfere with petitioner's business relationships, but found respondents liable for trade dress infringement and awarded $200,000 in respondents' profits to petitioner. (A-5.)

Respondents moved for judgment notwithstanding the verdict ("JNOV") as to the award of respondents' profits and as to the finding of liability for trade dress infringement.[5] The basis for respondents' JNOV motion was, *inter alia*, that there was no basis for an award of defendants' profits under the Lanham Act because petitioner had shown neither actual confusion nor an intent to deceive. (A-5.)

The district court denied respondents' motion for JNOV and entered a judgment containing the jury's award of $200,000 in respondents' profits and an injunction which required only that respondents change the base color of the EVER BRITE trade dress. (A-28-29, 34.)

Respondents timely appealed from the judgment of the district court and asserted four grounds of error, two of which are relevant here: the award of profits was not proper without evidence of intent to deceive and the award of profits was not proper without evidence of actual confusion.[6] Petitioner cross-appealed, but did not

---

[5] Petitioner moved for an award of attorneys' fees under the Lanham Act. The district court denied this motion, holding that this was not an "exceptional case."

[6] Respondents also argued, both in their JNOV motion and on appeal, that the district court, not the jury, should have decided whether and, if so, in what amount petitioner could recover respondents' profits; that the amount of respondents' profits awarded was improper and in excess of respondents' actual profits; that the district court had the power and obligation to correct the amount; and that petitioner had failed to produce evidence sufficient to establish the essential elements of trade dress infringement.

assert as error the district court's ruling that there was no evidence of intent to deceive or actual confusion or any of the district court's instructions to the jury.[7]

The Court of Appeals vacated the jury's award of respondents' profits, holding that such an award was improper absent either proof of intent to deceive or proof of actual confusion. Petitioner now asks this Court to review that decision.[8]

---

[7] Petitioner's cross-appeal attacked the district court's denial of its motion for attorneys' fees and the scope of the injunction entered by the district court. The Court of Appeals rejected both of these contentions and petitioner has not sought review of these rulings.

[8] Petitioner's statement of the case cites a portion of Judge Kearse's dissenting opinion which refers to a memorandum offered into evidence by petitioner at trial. That memorandum pertains solely to a chemical analysis of the nonpatented NEVR-DULL product which Blue Coral decided to replicate, and does not in any way relate to the trade dress of either product. (The product is essentially nothing more than unrefined cotton, petroleum distillate and an abrasive.)

## REASONS FOR DENYING THE WRIT

### A. This Case Does Not Present An Important Or Novel Question Of Law Which Warrants Review By This Court.

In vacating the award of respondents' profits, the Court of Appeals did not address a novel question, create new law or diverge from established precedent; it merely applied principles that are long established and supported by the history and aims of the Lanham Act to the specific facts of this case.

First, the Court of Appeals recognized that, although the Lanham Act makes recovery of a defendant's profits subject "to the principles of equity," this does not mean that no standard exists for such awards beyond a finding of infringement. As this Court has held, profits awards are not, and should not be, the automatic result of a finding of infringement and courts exercising the discretion conferred by this section must operate within legally defined parameters. (A-10.) *See Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 131 (1947) (accounting of defendant's profits will not be ordered "merely because there has been an infringement").[9]

In examining the factual, legal and policy grounds upon which such awards have been based, the Court of Appeals identified three situations in which recovery of profits has been permitted: where the defendant has been unjustly enriched; where the plaintiff has sustained damages from the infringement; and where a profits award is warranted to deter a willful infringer from

[9] *See also Burndy Corp. v. Teledyne Indus., Inc.*, 748 F.2d 767, 771 (2d Cir. 1984) (profits will be awarded "only if certain standards are met"); *Scarves By Vera, Inc. v. Todo Imports, Inc.*, 544 F.2d 1167, 1175 (2d Cir. 1976) (award of profits is not an "automatic concomitant of" grant of injunction).

repeating his infringement. The Court of Appeals recognized that each of these rationales is grounded in the fundamental precept that one who intends to deceive or who causes actual confusion of consumers is more culpable than a mere infringer, and that harsher remedies are appropriate. (A-11-16.)

Noting that the "unjust enrichment" rationale is based on the law of constructive trust whereby a wrongdoer is deemed to hold profits earned at the expense of another in trust for that party, the Court of Appeals adopted the reasoning of many earlier cases that an enrichment is not "unjust" unless the profits of the defendant are attributable to the infringement.[10] Profits are not attributable to the infringement unless they result from consumer confusion between the goods of the plaintiff and those of the defendant. Because petitioner could not show confusion, or intent to deceive which would justify a presumption of confusion, the Court of Appeals concluded that no award of profits could be based upon the unjust enrichment rationale.

The Court of Appeals also considered whether the award of respondents' profits could be supported on the ground that petitioner had sustained damage from the infringement. This rationale required the petitioner to show harm from the infringement (*i.e.*, confusion). Since petitioner stipulated that it had no proof of confusion, the Court of Appeals ruled that the profits award could

---

[10] *See Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251, 259, 261 (1916) (where imitation of mark is fraudulent, plaintiff may recover profits "attributable to defendant's use of the offending mark"); *Burndy Corp. v. Teledyne Indus., Inc.*, 748 F.2d at 772 (unjust enrichment occurs only where defendant's sales are attributable to the infringement (quoting *W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970)).

not be upheld on this basis either.[11] Finally, the Court of Appeals correctly recognized that deterrence is a legitimate rationale for allowing recovery of an infringer's profits only where there is intentional deception to deter. (A-16.) When no bad intent exists, there is no culpable conduct to be deterred in the future.

The soundness of the result reached by the Court of Appeals is apparent when the alternative petitioner suggests is considered. If recovery of a defendant's profits were permitted where neither intent to deceive nor actual confusion is shown, unintentional infringers would forfeit profits that were the result of their own industry and effort and were not earned at the plaintiff's expense. Such a rule would encourage marginal lawsuits by plaintiffs who, although not harmed by confusion, would nevertheless be entitled to a windfall award of profits based solely on a finding of infringement. (*See* A-17.) Rather than fostering competition, this result would encourage entrenched market leaders to use trademark litigation as an economic weapon to crush new market entrants.

---

[11] *See Perfect Fit Indus., Inc. v. Acme Quilting Co.*, 618 F.2d 950, 955 (2d Cir. 1980); *cert. denied*, 459 U.S. 832 (1982) (in absence of actual confusion, plaintiff may not recover damages or profits); *G.H. Mumm Champagne v. Eastern Wine Corp.*, 142 F.2d 499, 501 (2d Cir.), *cert. denied*, 323 U.S. 715 (1944) (same). Although the Court of Appeals acknowledged some uncertainty in the cases as to whether, in addition to actual confusion, such plaintiffs are also required to show intent to deceive, such uncertainty did not affect the result and does not warrant review, because neither actual confusion nor intent to deceive were shown.

**B. The Decision Of The Court Of Appeals Does Not Conflict With The Decisions Of This Court Or The Decisions Of Other Circuits.**

The cases cited by petitioner do not demonstrate a conflict of decisions which warrants review by this Court. Indeed, the petition does not contain a single case in which the recovery of profits was upheld where neither intent to deceive nor actual confusion was shown. The cases which petitioner does cite either were decided on fundamentally different facts, do not address the issue before the Court of Appeals, or are consistent in their reasoning with the Court of Appeals. Whatever superficial or semantic differences may exist are not the result of any difference in law or reasoning, but the result of the application of essentially equitable principles to the peculiar facts of each case.

Petitioner mischaracterizes the decision below as denying a Lanham Act plaintiff any monetary relief absent proof of intent to deceive and argues that, for this reason, the decision conflicts with the "commitment" to the protection of trade dress expressed by this Court in *Two Pesos, Inc. v. Taco Cabana, Inc.*[12] In fact, the decision below does not deny plaintiffs monetary relief unless they can prove intent to deceive. The Court of Appeals expressly stated that plaintiffs who can prove actual confusion may recover damages. (A-17.) Petitioner could not do this. Likewise, as the Court of Appeals recognized, plaintiffs who can meet the equitable

[12] 112 S. Ct. 2753 (1992). Of course, there is no substantive conflict between the Court of Appeals' decision and this Court's decision in *Two Pesos* because the only issue decided there was whether secondary meaning is an essential element of a trade dress infringement claim under the Lanham Act. All the decision did was to adopt the same standard for trade dress cases that this Court had previously adopted for trademark cases.

standards that courts have developed for obtaining a profits award may recover the defendant's profits. Petitioner could meet none of these standards either. Thus, the Court of Appeals did not alter the right to monetary relief under the Lanham Act, it merely applied the preexisting standards for such awards to the facts of this case. Although petitioner's inability to prove confusion or intent to deceive foreclosed petitioner from any monetary relief, the Court of Appeals' decision does not do so generally.[13]

Moreover, none of the cases petitioner cites from other circuits conflict with the decision here. In *Louis Vuitton S.A. v. Lee*, 875 F.2d 584 (7th Cir. 1989), the defendants did not unintentionally infringe upon a trade dress; they knowingly and willfully sold counterfeit handbags. By its very nature, a counterfeit product is intended to mislead and designed to cause confusion. The decision is wholly consistent with the decision herein, and the comments in the Seventh Circuit's decision as to "innocent" infringers and profit awards are mere *dicta* which do not evidence conflict or warrant review by this Court. (A-11.)

Like *Louis Vuitton*, *General Elec. Co. v. Speicher*, 877 F.2d 531 (7th Cir. 1989), involved knowing and unauthorized use of another's trademark. Further, the plaintiff therein did not even seek to recover the defendant's profits. *Id.* at 534-36. Obviously, because no award of profits was sought, nothing in the decision can

[13] Nor does the Court of Appeals' decision conflict with this Court's 1942 decision in *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203 (1942). First, that case predates the Lanham Act by four years and applied the damages provision from the Trademark Act of 1905. Moreover, that case did not involve unintentional trade dress infringement, but the unauthorized use of a registered trademark. *Id.* at 204. *Cf. Champion Spark Plug*, 331 U.S. at 131.

conflict with the Court of Appeals' determination that the award of profits here could not stand. *Burger King Corp. v. Mason*, 855 F.2d 779 (11th Cir. 1988) was also a case of intentional infringement. There, the defendant was a franchisee who continued to use the franchisor's registered trademarks after he knew that his franchise had been terminated. *Id.* at 780. In upholding an award of profits, the Eleventh Circuit relied upon the same unjust enrichment and deterrence rationales that the Court of Appeals herein identified as supporting such awards. *Id.* at 781.[14]

Finally, the award of profits in *Roulo v. Russ Berrie & Co.*, 886 F.2d 931 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990), is easily justified under either the deterrence or unjust enrichment rationale. Given this, the Seventh Circuit's acknowledgment that the Lanham Act provides no express standard for awarding profits beyond the phrase "principles of equity" does not conflict with the decision here and is no more than a comment on the language of the Act. *Id.* at 941. For over forty years, the courts have developed on a case-by-case basis the meaning of "principles of equity" as that term is used by the Lanham Act. The decision herein does no more than synthesize those prior decisions and apply the principles derived from them to this case.[15]

---

[14] *Wynn Oil Co. v. American Way Serv. Corp.*, 943 F.2d 595 (6th Cir. 1991), also involved intentional trademark infringement. Moreover, the Sixth Circuit overturned the district court's refusal to award profits not on any ground pertinent here, but because the district court had refused to award profits since it could not ascertain their exact amount. *Id.* at 606.

[15] The decision of the Court of Appeals herein is in fact consistent with the positions taken repeatedly by the United States Courts of Appeals that have considered the issue. *See, e.g., Alpo Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 966 (D.C. Cir. 1990) (award of defendant's profits requires proof that defendant acted willfully or in

(Footnote continued on following page.)

**C. The Decision Of The Court Of Appeals Does Not Conflict With The Legislative History Or Intent Of The Lanham Act.**

Petitioner also contends that the decision of the Court of Appeals is at odds with the legislative history of the Lanham Act. In support of this contention, petitioner cites general comments as to the purposes of the Act and a Senate Report on the amendment establishing the right to recover attorneys' fees in exceptional cases. Petitioner never explains how the Court of Appeals' decision conflicts with this legislative history.

The first piece of legislative history cited by petitioner is lifted verbatim from Justice Stevens' concurring opinion in *Two Pesos, Inc. v. Taco Cabana* and, like that case, does not address the recovery of a defendant's profits. *See Two Pesos*, 112 S. Ct. at 2764 (Stevens, *J.*, concurring). Congressman Lanham's introductory comments and the statements in the Senate Report that the goal of the Lanham Act is to protect "legitimate businesses" and consumers do not conflict

---

(Footnote continued from preceding page.)

bad faith); *Reader's Digest Ass'n, Inc. v. Conservative Digest, Inc.*, 821 F.2d 800, 807 (D.C. Cir. 1987) (award of profits properly denied where no intent to deceive or harm to plaintiff was shown); *Frisch's Restaurants, Inc. v. Elby's Big Boy*, 849 F.2d 1012, 1015-16 (6th Cir. 1988) (award of profits not appropriate where no bad faith was shown and defendant's sales were not attributable to infringement); *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 917-19 (Fed. Cir. 1984) (accounting of defendant's profits is not automatic and is properly denied where no wrongful intent or actual harm to plaintiff is shown); *Raxton Corp. v. Anania Associates, Inc.*, 668 F.2d 622, 625 (1st Cir. 1982) (accounting of profits properly denied where neither actual damages nor willful infringement was shown).

with the decision reached by the Court of Appeals.[16] "Legitimate business" includes the right to compete and to copy products or product concepts that are not protected by patent, copyright or trade secret law. *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 153 (1989). In this case, there was no confusion, no consumers were misled and petitioner was not harmed as a result of the competition. As the Senate Report cited by petitioner states, the Lanham Act is meant to protect trademark owners from "pirates and cheats." Defendants who neither intend to deceive consumers nor create confusion while competing are not pirates or cheats.

Petitioner also asserts that the Court of Appeals' decision conflicts with the intent of the amendment which established the right to recover attorneys' fees in "exceptional" Lanham Act cases. Since petitioner has not challenged the decisions below denying its request for attorneys' fees, it is difficult to understand the significance of this assertion. As best respondents can tell, petitioner contends that the Court of Appeals improperly applied the "exceptional case" standard for an award of attorneys' fees to petitioner's claim for profits. *See* 15 U.S.C. §1117(a).

The basis for this apparent theory is a mystery. Absolutely nothing in the decision suggests that the Court of Appeals held or believed that a case must be

---

[16] Congressman Lanham's reference to the creation of "uniform legal rights and remedies" refers to the goal of achieving uniformity of rights and remedies nationwide, rather than rights that could differ from state to state. This does not suggest, as petitioner implies, that every plaintiff should be entitled to the same remedy no matter how divergent the facts. Indeed, such a rule would directly conflict with the discretion granted courts under the Lanham Act. *See* Petition at 11.

"exceptional" before profits may be awarded. To the contrary, the Court of Appeals recognized that some equitable consideration, be it unjust enrichment, harm to petitioner, or deterrence, must be proven to justify a profits award.

The fact that the Senate Report on the attorneys' fees amendment uses the words "malicious, fraudulent, deliberate and willful" to describe conduct which might be exceptional does not indicate that the Senate intended to limit a consideration of the defendant's conduct to the issue of whether or not to award attorneys' fees, and intended to make profits awards automatic upon a finding of infringement.[17] If the Senate had wanted to change the long-standing judicial rule requiring proof of more than mere infringement before a defendant's profits may be awarded, it surely would have done so directly.

For decades, the courts have recognized that there is a range of infringing conduct from innocent to exceptional and, for this reason, have developed standards pursuant to the "principles of equity" for determining in a given case whether an injunction, damages, profits, attorneys' fees, or some or all or none of the foregoing, are appropriate. The Court of Appeals herein did nothing novel or extraordinary; it simply applied these long-standing principles.

---

[17] *See* Senate Report No. 93-1400, 93d Cong. 2d Sess. 1974, p. 7136.

**D. Differences Between Cases Decided Under The Lanham Act And Cases Decided Under The Copyright Or Patent Acts Do Not Warrant Review By This Court.**

Petitioner's final argument is that review by this Court is necessary because the Court of Appeals treated the profits award here differently than profits awards are treated under the Copyright and Patent Acts. Given the fundamental differences in the structure of the three statutes and in the nature of the underlying rights each seeks to protect, such differences provide no basis for review by this Court.

Neither Section 504(b) of the Copyright Act (17 U.S.C. §504(b)) nor Section 289 of the Patent Act (35 U.S.C. §289), which establish copyright and design patent owners' respective rights to recover an infringer's profits, makes such awards subject to principles of equity or includes any other requirement beyond infringement. That courts applying these statutes do not apply the same analysis used in cases under the Lanham Act merely reflects the differences in the statutes.

Further, the rights protected by the three statutes are fundamentally different. The Lanham Act protects consumer expectations and legitimate businesses by establishing, and prohibiting infringement of, trademark and related rights. In contrast, the Copyright Act is designed to foster originality and creativity by giving creators the exclusive right to control and exploit copyrightable works for a limited period of time. Similarly, the Patent Act is intended to foster and reward invention and innovation.[18] These differing goals

---

[18] *See Harper & Row, Publishers, Inc. v. Nation Enters., Inc.*, 471 U.S. 539, 545-46 (1985) (copyright); *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (citing *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 479 (1974) (patent).

are reflected in the fact that, while the copyright and design patent laws provide for monetary relief whenever protectable creativity or invention is usurped, courts applying the Lanham Act are loath to award monetary relief unless the consumer expectations that the Act is intended to protect are affected—in other words, unless deception of consumers is intended or created.

In sum, this case does not present an important new issue, offer this Court the opportunity to rectify a conflict of authority among circuits, or present an issue of importance to a large group of people. It is no more than a case in which the petitioner's proof at trial failed to meet the standard required for the relief that it desired. As such, there is no basis or reason for discretionary review by this Court.

## CONCLUSION

For the foregoing reasons, the Petition for A Writ of Certiorari should be denied.

Respectfully submitted,

LOUIS A. COLOMBO
*Counsel of Record*
R. SCOTT KELLER
MICHAEL K. FARRELL
BAKER & HOSTETLER
3200 National City Center
1900 East 9th Street
Cleveland, Ohio 44114-3485
(216) 621-0200
*Attorneys for Respondents Blue Coral, Inc., Simoniz Canada, Ltd., and Michael Moshontz*